BANKING, CREDIT, AND COLONIAL FINANCE IN CUBA, 1878-1895

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Any errors of commission or omission are entirely the responsibility of the author.

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Colonial Cuba faced profound economic crises between 1878 and 1895. Increased debt, depleted treasuries and fiscal and monetary policies and systems unresponsive to colonial requirements were the legacies of the Ten Years War. By emphasizing sugar production during the transition from slave to wage labor, Spain created higher demands for technology, economic stability, a stable currency system, and flexible credit systems. Instead, production was organized in an economy with an unstable currency, inadequate financial intermediaries, and inconsistent economic directives.

The main banking system of Cuba, the Bank of Spain of the Island of Cuba, replicated the structure and behavior of the Bank of Spain organized in Madrid. Its function as an agent for accumulating, utilizing, and mobilizing private capital for production and investment was hindered by the nature of its relationship with the colonial government. This accommodation to government needs, as well as

lack of bank competition, note issuing problems, and limited access to banking all restricted the effectiveness of the bank in private transactions.

Investment banks organized in the 1850s and 1860s could not survive the 1883-1884 financial crisis that further destabilized the economy. With the exception of a few other banks, such as the Banco Hispano-Colonial and the Banco de Comercio, merchant and commission bankers continued to be the predominant agents for credit in the years before the Cuban independence war. Tied to the sugar industry in Cuba and the United States, the role the merchant and commission bankers played in the economy initially emphasized brokering rather than investment. Over time, through their activities in sugar marketing and production, these agents established control over the center of the Cuban economy.

Both the Spanish government and the sugar producers engaged in deficit spending and debt financing to capitalize their respective operating expenses. These methods used by Spain resulted an increased perpetual debt charged to Cuba, mortgages on Cuban customs receipts, and ultimately, foreign mortgages on Cuban lands. When employed by the sugar producers, debt financing resulted in accumulated debts, perpetuation of sugar monoculture, and estates mortgaged to foreign capitalists.

CHAPTER I

INTRODUCTION

Many factors ultimately force a colony to sever the colonial relationship. They can be philosophical, social, political, and economic. Through a complex interplay of conditions and actors within the colony, the metropolis, and even the international order, the movement towards independence begins. This process of achieving political sovereignty is invariably violent, prolonged, and costly. The outcome is shaped by the same factors that precipitated the independence effort. These factors help determine any changes in society and political and economic freedoms, as well as the ability of the new nation to make independent choices that maximize its potential and power.

The Cuban struggle for independence from Spain ended in 1898. Before and after ending the colonial relationship with Spain, Cuba did not achieve a significant measure of economic development. Instead, its sugar monoculture persisted, and balanced productive forces developed slowly. Nor did it attain political sovereignty, as it became a protectorate of the United States. The independence war itself became subsumed under the title of the "Spanish American War," minimizing the internal conflicts and conditions that provoked opposition to colonialism.

A study of the period between the end of the Ten Years War in 1878 and the beginning of the Cuban Independence War in 1895 is essential to an understanding of the factors that shaped pre- and post-independent

Cuba. During this time Cuba faced significant challenges. Many of these changes in society, polity, and economy have already been researched and analyzed by historians of Cuba: the process and impact of slave emancipation, the changes in sugar production, the effects of political reforms, and the political conflicts between the United States and Spain over Cuba.[1] However, little attention has been given to the nature of Spanish fiscal and monetary policies and their short and long-term effects on the Cuban economic environment.

These factors are significant to this period of Cuban history for several reasons. First, the Ten Years War (1868-1878) was a protracted and costly rebellion. How Spain financed its defense during and after the war affected its ability to promote growth in the Cuban economy. Second, the transition from slavery to wage labor created new demands for means of payment. How these needs were addressed influenced the degree of dissatisfaction with Spanish monetary policies among all Cubans. Third, and concomitantly, the sugar industry required improved technology to offset labor costs and increase sugar production during this period. Acquiring technology and enhancing production depended on a stable economic climate and responsive credit systems. Spanish inability to provide either increased Cuban planter frustration with the political economy. Fourth, the extensive political and economic intervention of the United States after 1898 and the persistence of sugar monoculture tied to United States markets had significant antecedents. One that needs further study is the role of finance capital.

The purpose of this study is to examine the nature of late nineteenth century Spanish fiscal and monetary policies and systems and their effects on the sugar monoculture in Cuba. Through this analysis,

it becomes clear that the period 1878 to 1895 was one of profound economic crisis and widespread criollo dissatisfaction with Spanish political direction of the economy. These economic problems were contributing factors in the movement towards independence from Spain. Perhaps more important, the economic developments in this twenty-year period are closely linked to the political economy of independent Cuba and the subsequent role of the United States in Cuba.

Spain lost Cuba late in the nineteenth century. At that time, technological development was advancing in Europe and the United States. Large areas of the world were being divided into spheres of political and economic influence. Spain did not participate in this "scramble," nor did it make significant achievements in industrialization. Its economy remained relatively stagnant through the nineteenth century, despite government attempts to promote increased technological development.

This failure to develop economically affected relations between Spain and Cuba for two reasons. In the first place, it kept Spain dependent on European and United States suppliers of sugar technology and transportation equipment to Cuba, reducing the advantages of colonial trade. Secondly, the inability to promote successfully industrial programs in Spain, because of inappropriate fiscal and monetary policies, ensured that its colonies would remain underdeveloped as well.

As it had always done, Spain transferred to its colonies its own institutions and policies. One agency in the economy of Spain, the Bank of Spain, proved to be important to Spanish political economy. This research will demonstrate that its counterpart in Cuba, the Bank of Spain of the Island of Cuba, was of equal significance in the insular

economy. The roles of other financial agents, including the Banco Hispano-Colonial, the Caja de Ahorros, investment banks, merchant bankers, and commission merchants are also examined. Their functions in the Cuban economy indicate that the financial system was in transition. Traditionalist credit agents--commission merchants and merchant bankers--predominated the credit transactions at a time when the economy needed flexible credit. On the other hand, the structure and activities of the largest banking institutions hindered their ability to adequately fulfill their functions of utilizing and mobilizing capital. In fact, the "modern" banking system contributed to instability in the Cuban economy.

The importance of banking institutions in the economy has been researched most recently by a series of case studies produced under the direction of economic historian Rondo Cameron.[2] These studies suggest that although banks are not the exclusive agents for economic growth and development, their interaction with other factors, such as demographics and resources, can affect economic direction in specific periods. As suppliers of the money and credit, and catalysts for the development of entrepreneurial talent, banks have been able to redirect resources into more productive activities and shape crucial stages in economic history.

In underdeveloped economies, the financial system tends to be underdeveloped as well. Government pressure can reduce the importance of the bank's role as creator and provider of the means of payment to a system for over-supply of inflationary paper money.[3] Instead of re-investing capital in projects with high rates of return, the bank may, for many reasons, make unproductive loans. In addition, the financial institution may find its own growth retarded by social,

political, or other restrictions, and therefore be less able to contribute to economic growth in society.

Late nineteenth century Cuba offers a unique opportunity to examine the nature of banking and credit in the context of colonialism and political and economic crisis. Using bank and government documents and secondary sources to analyze the structure and behavior of financial intermediaries and the Spanish economic system in Cuba, the research elaborates on the work completed by Gabriel Tortella-Casares and others on the Bank of Spain of Madrid. It is anticipated that this study will contribute another dimension to the explanation for Cuba's rejection of colonial rule, and inability to diversity agricultural production, improve the stage of its refining process, or increase investment in the infrastructure. Moreover, the research will demonstrate that the extent of crisis in the Cuban economy was directly related to the government's relationship with the Bank of Spain of Cuba and the Banco Hispano-Colonial, in destabilizing the currency, increasing the public debt, and forcing dependence on more costly and traditional financial intermediaries incapable of mobilizing and utilizing capital for diversification and development of the economy. Cuban capital needs and requirements for economic stability increased from 1878 to 1895. As Spain proved more incapable of responding to those needs, they were met outside the Spanish colonial system.

Notes

1. For the best sources on these topics, see Louis A. Pérez, Jr., Historiography in the Revolution: A Bibliography of Cuban Scholarship, 1959-1979 (New York: Garland Publishers, 1982), the bibliography in Pérez, Cuba Between Empires, 1878-1902 (Pittsburgh: University of Pittsburgh Press, 1983), 449-480, and the bibliography in Rebecca J. Scott, Slave Emancipation in Cuba: the Transition to Free Labor, 1860-1899 (Princeton: Princeton University Press, 1985), 299-310.

2. Rondo Cameron, ed., Banking and Economic Development (New York: Oxford University Press, 1972).

3. Ibid., 8. Also see Carlos Manuel Peláez, "The Establishment of Banking Institutions in a Backward Economy: Brazil, 1800-1851," Business History Review 49 (Winter 1975): 446-472.

CHAPTER II

BACKGROUND:
SPAIN AND CUBA AT THE END OF THE NINETEENTH CENTURY

In the final decades of the nineteenth century, Spain vainly sought to retain control over the few remaining outposts of a once-vast empire. Although its political system had become more stable between 1878 and 1895, the Spanish government had not become more responsive to the colonial political demands for representation, minimization of corruption, and structural change. Nor had it become more responsive to economic demands. Spain was incapable of providing adequate capital, markets, and consumer and industrial goods for its colonies, but was unwilling to relinquish the economic controls that would have been necessary to advance colonial technological development.

Spain followed instead its traditional path: imposing on its colonies monetary and fiscal policies and systems used at home, with little modification to accommodate different conditions or needs. The tax system used in Spain was expected to work in Cuba, despite enormous differences in land use and class structure. The currency system used in Spain was also expected to work in Cuba, despite differences in labor patterns and economic activity. The controlled banking system used in Spain to regulate currency and subsidize the Treasury should work in Cuba, despite a higher demand in Cuba for capital and machinery. Moreover, the belief persisted that legal framework for trade, investment, and property relations was appropriate for Cuba, despite

the differences in trading partners and finance capital needs. Spain imposed on its colonies forms and programs with which it was most familiar, attempting to develop political, economic, and social structures that proved to be inconsistent with colonial realities.

Cuba ultimately moved away from this colonial relationship, first at the economic, then at the political level. That it did so nearly three generations after Latin American independence had profound implications for both the nature of the struggle against colonialism and its outcome. In the decades between Napoleonic rule and the Cuban independence war of 1895, Spain and Cuban faced unusual economic, political, and social changes. As both became more involved in the international economic order, each suffered the consequences of world depressions, recessions, and financial crises. Each also faced internal crises that required extraordinary management of resources. Spain was unable to respond appropriately to these needs in Cuba. The developing economic relationship between Cuba and the United States shaped both the course of independence and the evolution of the republic.

By 1878, the Industrial Revolution and the dispute over republicanism versus monarchy in Spain unleashed forces difficult for the traditional State to control. A new group of entrepreneurs demanded ready capital, protection for industrial development, and elimination of export barriers. Agricultural sectors and infant industrial sectors in the Catalonia, the Basque regions and Andalusia demanded capital for mechanization. In Valencia, trade agreements with Europe were revised to improve potential grain and olive exports. Large landholders, whose property had expanded after the 1830s disentailment and enclosure

programs, continued to operate land inefficiently, with little regard for marginal rates of return.[1] They had, nevertheless, reduced the arable land available to the peasant farmers. These small landowners suffered from usurious loans and required arable land and equitable loan rates.[2] Members of newly formed unions, especially in Catalonia, demanded wage increases, improved working conditions, and minimization of technology.[3] Syndicalism, anarchism, and socialism were advocated by sectors of the urban poor and placed further strains on the economic and political system.

The political system had been unstable for some time. The fall of the Spanish monarch Isabel II in 1868 coincided with the beginning of the Ten Years War in Cuba. From 1868 to 1870, Spain's military regency searched for a sovereign, and finally chose Amadeo of Savoy. By 1873, another Carlist War forced Amadeo to abdicate. After four presidents ruled a year-long republic, some stability returned to the government with the establishment of a constitutional monarchy. It was, however, a system that would continue to suffer constant stress.

The constitutional monarchy appointed the ministers responsible to the Cortes. The presidents of the Council of Ministers (Prime Ministers), Antonio Cánovas del Castillo, Arsenio Martínez Campos, and Práxedes Sagasta faced some of the most complex issues of the nineteenth century. Conflicts arose over regionalism versus federalism, free trade versus protectionism, taxes, defense of the constitutional monarchy, the relationship between Church and State, individual rights, universal suffrage, the role of government in education, and of course, colonial control and advantage. However, Spain dealt with these and other issues within a limited democratic process. Until 1892 the vote was exercised

only by taxpayers, leaving the economic and political system to operate under its traditional methods of graft, corruption, and _caciquismo_.[4] Strong personal ties and favoritism, in Spain as well as Cuba, continued to weaken written law and procedures and to undermine institutions and efficiency.

During the period of civil war at home and in Cuba, Spain was undergoing a social transition related to the expansion of merchant and finance capital. Banking and industrial entrepreneurs rose above sectors of the landed aristocracy in wealth, if not in social status. This change was most noticable in the Catalan and Basque provinces, where textile and metal works were mechanized and became integrated economically with the colonial economies of Cuba and Puerto Rico.[5] The landed aristocracy still retained preeminent social prestige, but economic changes forced new associations with the business sector.

Disentailment had precipitated transfer and reorganization of property and changed the nature of production. Wealth was henceforth acquired through business and banking, especially in trade with Cuba and France. The growth of industry, banking, and railways had forged closer relationships between the aristocracy, financiers, and members of the government. Sagasta himself sat on the board of directors of a railway company, and was forced in 1890 to resign after a scandal involving Cuban rails.[6] Four ex-ministers of _Hacienda_, Pedro de Salaverría, José Elduayen y Gorriti, Juan Francisco Camacho, and José García Barzanallana, and two ex-ministers of _Fomento_, Salvador de Albacete and Pio Gullon e Iglesias, became Governors of the Bank of Spain.[7] The relationship between government, finance, and commerce deepened.

In Andalusia, Catalonia, and other areas where Federal Republicanism had been strongest, the persistence of piece-work payment, low wages and inequality in land distribution helped provide the conditions for the emergence of trade unions, anarchism, and socialism. A monoculture economy created seasonal employment in olives, grapes, and wheat, and an underdeveloped industrial base provided limited opportunities for skilled and unskilled workers. Spain's disentailment and enclosure programs in the first half of the century had reduced private capital available for industrial investment, and limited small and medium landholding. The concentration of land, much of it idle or non-productive, tended to exacerbate underemployment and unemployment. At the same time, oligarchical control of industry and land limited both the size of the upper class and the development of a middle class.

In this period of transition, other objective conditions created despair and ruin in the Spanish economy and society. Famines and epidemics claimed hundreds of thousands of lives. Andalusia suffered a major famine in 1881-1882. Cholera morbus killed 120,000 in 1885.[8] Another epidemic followed in 1888.[9] Those willing to undertake the challenge emigrated to Cuba and other parts of the Americas, providing some relief for the Spanish economy. Numbers of Spanish immigrants to the Americas followed closely behind those of Great Britain, Germany, and Italy. For those who remained, Luddite violence and attacks on political and business leaders marked the last part of the century, especially in the Catalan and Basque regions.

The Spanish government was unable to stimulate the economy and improve its depressed condition. The long period of sporadic civil war in Spain (1808 to 1876) had drained the Treasury's limited resources.

Men and equipment had to be supplied not only in Spain but in the Latin American colonies. As each regime found it necessary to defend itself while attempting to extend its power, the costs of government administration escalated. In the difficult economic environment, government revenues had failed to keep pace with national needs.

The treasury depended on a narrow national tax base. Neither direct taxes on property, "exceptional" taxes imposed on Cuba for war efforts, nor taxes on internal commerce and foreign trade provided adequate operating expenses. Direct taxes on property, business, and internal trade profits were less significant to the budget than taxes on foreign trade. Property tax collections were limited by a tradition of bribery and deception by large landowners and by the inability of small landowners to pay.[10] Exceptional taxes, imposed during the war as temporary measures to raise capital, were violently protested and/or evaded. Sales taxes and internal commerce and business taxes were limited by the lack of commercial development. With the elimination of national customs barriers, dependency on tariffs increased.

Throughout this period, the issue of free trade for Spain had absorbed the interest of Catalan businessmen and Valladolid wheat farmers alike. Expansion of local industrial production and wealth could not be achieved without restrictions on European competition. On the other hand, to produce and deliver agricultural products and finished goods at a greater volume, improvements in mechanized production and transportation were essential. These improvements could only be obtained through imports from Great Britain, Germany, and France. Although the government tried to resist the inevitable pressure to reduce import controls, in the long run, free trade proponents

secured government support. The disadvantage to the government was a decrease in Treasury revenues from taxes on external commerce.

This trend toward free trade began in 1869 with the elimination of the differential flag system. Under this system taxes were imposed on the basis of four accelerating columns: Spanish merchandise in Spanish vessels, foreign merchandise in Spanish vessels, Spanish merchandise in foreign vessels, and foreign merchandise in foreign vessels. For example, in 1869, white sugar shipped under the national flag paid an export duty of 75 cents per box, while sugar shipped under a foreign flag paid 87½ cents per box.[11] With the abandonment of this system, the Spanish government was forced to rely increasingly on the negotiation of international trade agreements to establish favorable tariffs. Since Spain's balance of trade remained unfavorable for much of the last half of the nineteenth century, the reciprocity in these treaties was seldom negotiated from a position of strength.[12]

Other efforts to reduce government taxes also met with success. Further reductions in extraordinary, fiscal, and balance of trade assessments were accomplished gradually between 1875 and 1882. The consequence was to leave a near-bankrupt Treasury with receipts from the government lottery as its most stable income.[13]

In an attempt to meet the expenses of perpetuating its overgrown bureaucracy and providing limited government services, the Treasury relied increasingly on foreign loans and bond sales.[14] This practice sent Spain into a spiraling debt from which recovery seemed unlikely. Bond sales, however, could not be effected without some certainty of economic stability and progress, and the Spanish economy appeared a poor risk. Its colonies, on the other hand, bore signs of advancement and

prosperity. For that reason, Spain tied its bond subscriptions and loans to the economic future of Cuba.

The additional expenses incurred during the Cuban Ten Years War (1868 to 1878) could not be met by a depleted Spanish Treasury. The cost of sending Spanish conscriptees to fight alongside the volunteer army in Cuba was high: besides clothing and war materiel, each soldier received extra pay for service abroad, transportation costs home for himself and his family at the end of his tour of duty, and a bounty equivalent to $150.[15] As annual war costs rose above $40 million, Spain was forced to turn to Europe's financial centers for loans, pledging Cuban resources--first customs duties, then mortgage bills--as collateral.

This debt financing of the Spanish Treasury continued beyond the war years. By 1886, 1,240,000 mortgage bills of Cuba, respresenting 620 million _pesetas_ were authorized for listing on the Paris Bourse. They were guaranteed by revenues from customs, stamps, and direct and indirect taxes of Cuba. Since 1878, 250,000 Treasury bonds of Cuba had been quoted on the Bourse, promising an income of 30 francs a year and full redemption by 1893.[16] Money lenders, however, apparently questioned Spanish ability to control these resources over the long term. Smaller loans were also negotiated intermittantly at increasing interest rates. Subscriptions to bonds based on Cuban "futures" met with mixed success. More than once, Spain attempted to consolidate its foreign debt, but failed to meet interest payments on the newly issued bonds. Further issues were considered risky to undertake. In the late 1890s, Spain had to arrange a new debt conversion.[17]

A central problem affecting Spain's ability to improve the national economy and its position in the international economy was an unstable currency. Spanish coinage was a mixture of gold, silver, copper, and bronze. Since interest on the external debt was paid in gold, and the trade balance was unfavorable, gold exports were high and minting declined dramatically.[18] Moreover, following Spanish acceptance of the system of currency controls developed at the 1865 Latin Monetary Convention, silver became over-valued in relation to gold.[19] Given the national economic position, the peseta fluctuated wildly on the world market, depreciating rapidly between 1881 and 1900.[20] By 1885, almost as much silver as gold circulated in Spain. For all practical purposes, Spain's standard of exchange was silver and fiduciary money.[21]

It was this paper money--note issues from banks chartered by the government--that established inflationary cycles for Spain and further reduced faith in the national currency. By authorizing banks to issue notes without adequate metal backing, and forcing the use of these notes in certain government transactions, paper money was perceived as having little redeemable value.[22]

Declining faith in currency had the effect of reducing investment and the opportunity to invest. Credit necessary for business ventures was difficult to obtain under existing banking and credit conditions. Although the government recognized the need to develop its limited national industrial resources, it also recognized a lack of venture capital. As an alternative, it created an environment that permitted foreign capitalists to invest in the economy. The Basic Law of 1868, for example, ceded perpetual control of mining in return for state royalties. Spanish entrepreneurs were so limited that the investors

with the capital and interest available to exploit this opportunity were mainly British and French.[23]

Foreign capital and foreign entrepreneurs had also been responsible for promoting the main lines of the Spanish rail system since the 1860s.[24] Closely tied to rail investment were the foreign financiers, and branches of foreign banks multiplied in Madrid. Many, like the Houses of Rothschild, Lafitte, Girona Sainz, and Miqueloterena Brothers were heavily involved in rail construction. Foreign merchant capitalists, with the authority to take subscriptions on the public debt, orders on the Paris and London Stock Exchanges, and notes for foreign trade, worked alongside a small, but growing number of Spanish mercantile capitalists.[25]

Business transactions came to be conducted by a new breed of financier operating in an underdeveloped capitalist system. In addition to their private businesses, the Spanish--and ultimately Cuban--banks performed another function in the economy. As customs receipts and taxes declined, the government turned to the banks for Treasury assistance. The banks provided loans to the government to enable it to meet its operating expenses. While not officially chartered as a national bank, the Bank of Spain after 1875 began to fulfill this function on a continuing basis. It was given a total monopoly over note issues, collecting and remitting customs and tax receipts to the government. In effect, it subsidized the national Treasury.

The Spanish government determined that the bank was fulfilling these functions so well in Spain that it should impose the same system on Cuba. The consequences of this policy, however, would not be the same. Conditions in the colony were dissimilar. While each faced

economic crises that related to their expanding roles in the international economic order, neither society was capable of responding to a set of economic choices as a single, autonomous system. From 1878 to 1895, a growing number of Cubans believed that their economic decline was a result of colonialism.

Changes in Spanish political direction of Cuba after 1878 reflected demands made by criollos during the Ten Years War. Theoretically, these changes were designed to promote a more prosperous and loyal colony: to meet the demands of Cuban planters for gradual emancipation with indemnity, representation of all Cuban economic interests in Madrid, and extension of Spanish liberal ideals to Cuba. But the traditional disparity between theory and practice in the Spanish legal system, as well as the lack of substantive improvement in the economic direction of Cuba served to increase Cuban frustrations over the next two decades.

Among the demands made by Cubans after the Ten Years War was increased participation in the political institutions in Madrid. To that end, Spain established a reform program for Cuba. It first re-organized Cuba structurally, dividing the two provinces of Havana and Santiago into six: Pinar del Río, Havana, Matanzas, Puerto Príncipe, Santa Clara, and Santiago. It then provided for a new system of representation within the political organization.

Neither political reorganization of the island or changes in representation, however, could not change the historic differences in economic development. Havana continued to be the main port and center of political and economic activity, and the port areas of Matanzas and Cárdenas in Matanzas province benefitted from their proximity to Havana

and its facilities for trade. In the other provinces, new agents of the government arrived to coordinate colonial policies, but increased political control did not insure efficiency. More important, budgeting policies kept them economically inferior to Havana. In 1879, the province of Havana was budgeted at more than double that of Matanzas and Santiago and almost triple the budget of the other provinces.[26]

The reform program provided for the election of forty deputies to the Cortes, increased the number of local governments, and allowed council elections. The reforms should have reduced the influence of Havana in island politics, but the situation did not change signficantly. Representatives to the Cortes included those deputies from the new provinces, the Archbishop of Santiago, representatives from the University of Havana, and the Economic Society.[27] The power of the king, Cortes, and Governor-General to control the Cuban economy after 1878 was not effectively limited by Cuban participation in the Cortes. The Cuban poll tax, caciquismo, and notorious fraud and corruption limited both broad participation and class representation in this "democratic" process. While Spain pointed to the preponderance of Cubans who held posts in the Overseas Ministry, the University of Havana, cultural institutions, courts, notary offices, and the military, these sinecures were without real power to effect change in the political economy of Cuba.[28] The decision-making process remained essentially intact. Spain continued to control the appointment of those agents responsive to royal command: the Governor General, military commanders, audiencia judges, archbishops, intendents, governors, regidores, ministers, and governors of the Spanish Bank of Cuba. They were typically Spaniards unquestionably loyal to Spain and colonial rule.

At the end of the Ten Years War, the Cuban economy was in need of enormous recovery assistance. While virtually every part of the economy felt some effect from the war, the central source of island wealth, sugar and the sugar infrastructure, sustained the most damage. In certain areas, fields, mills, railroads, roads, and communication lines needed large capital outlays to recover. The eastern provinces were hardest hit, and there more estate owners were forced to sell, facing unpaid debts and limited capital.[29] Buyers with the ability to invest included not only the wealthiest Cuban and Spanish plantation owners, but investors from the United States.

The transition from slavery to wage labor after the Ten Years War created further dislocation in the Cuban economy. Prosperous mill owners who chose to replace man with machine could only do so at high cost. But labor could not be replaced by machine in the fields, or in certain parts of the milling and grinding process. Planters developed various strategies to reduce the costs of the expanding pool of "free" labor, including importing contract labor, and implementing forms of debt peonage.[30] The result was a large, seasonally employed working class without disposable capital, and a smaller planter and industrial class that confined investments to the sugar industry.[31]

Even as needs for capital and economic reforms to stimulate the economy increased, Cubans faced further economic uncertainty, especially from Spanish government policies. Cuban Treasury resources were all but depleted, since Cuba was expected to bear much of the burden for war costs. Revenues on the peninsula and the island were reduced by the lower production in sugar and other industries as well as the emerging competition in sugar on the world market. Compared to pre-war

administrative expenses of about $27 million a year, costs for Cuba's administration during the war surpassed $60 million a year. Neither the Cuban nor Spanish Treasury could meet these expenses from ordinary revenues, nor pay interest on the loans it contracted for the war effort. The Cuban Treasury plunged into debt for approximately $85 million, a debt which first tripled and later quadrupled during the next two decades.[32] Part of this debt was designated a "floating" debt, which was to be retired as customs receipts increased and liquidated it.[33] Instead, the debt multiplied and became an issue in pre- and post-independent Cuba.

To minimize the debt, and with limited resources for increasing expenditures, budget allocations for administering the island were reduced after the war. The budget for 1879 stood between $47 and $57 million. By 1884, it had dropped to $34 million and by 1891 to $26 million.[34] Nevertheless, the need for roads, schools, communication, potable water and hospitals continued to rise. At the very time the government should have been increasing its programs, it found it could not afford to meet existing services, let alone develop new ones. Reconstruction, transportation, education, and public health problems were all left to local governments and/or private interests to resolve. But economic crises and inconsistent tax policies made it impossible for either local governments or potential investors to anticipate how much capital might be available for such expenditures in any given year.

Government revenues continued to derive from the government lottery and taxes on the internal economy and external trade. Internal taxes included levies on mining, real estate, all forms of business, food, drink, transportation, and income. Charges were also assessed for

postal service and document stamps and government monopolies. During the early part of the Ten Years War, the government reduced "subsidy dues" on industry, the arts, professions, and commerce and on land by one half, in an apparent attempt to gain support from these groups.[35] It also remitted taxes for one year to those farmers who aided the government in its war efforts.[36] Nevertheless, total assessments increased during the war, especially extraordinary taxes assessed to defray the expenses of fighting the Ten Years War. In addition, planters were forced to provide part of their labor force or money in kind for the building of fortifications.[37] Although some taxes had been deferred, at war's end the assessor descended on the landowners with renewed intensity.[38]

Other taxes also rose and fell with the political tide. Income taxes, reduced in 1879 from 25 percent to 2 percent for planters and 16 percent for others, rose later.[39] Taxes on land transfers increased by 50 percent in 1880. They increased on identification papers in 1883.[40] Guilds and other workers protested higher taxes in 1885, but to no avail. In a rare move, the Board of Trade, representing the power of the commercial sector, was successful in forcing the government to rescind a new stamp act in 1886.[41] But most often, protests were ignored. Taxes increased again in 1893, and cigarette manufacturers protested high taxes by resolving to stop work at factories and dispose of stocks. Even undertakers closed their doors rather than pay four times as much for licenses.[42] Import taxes rose as well--especially on products from Spain--first on wines, liquors, and other beverages, then on virtually every other product.[43] In addition, cities in dire need of operating expenses imposed other taxes to raise operating revenue and

meet the budget no longer adequately provided by the central government.[44]

The most significant source of revenue for the Cuban Treasury during this period was tax on sugar exports and, decreasingly, tobacco exports. While free trade proponents in Spain had been successful in eliminating the differential flag system and discriminatory tonnage charges for Spain, Cuban trade with the United States did not immediately enjoy the same flexibility. Throughout the Ten Years War, the United States and Spain had argued over unfair tonnage dues and discriminatory duties applied in the United States and Cuba.[45] On this issue, Cuba and Spain faced a colonial dilemma. Without increased Spanish direction of the economy, neither recovery nor advancement could be achieved.

But Spanish policies reflected its continuing interest in reducing the political and economic influence of the United States. Increasingly, beet sugar from Holland, Belgium, France, Germany, Austria, Hungary, Russia, Egypt, and India displaced Cuban and Puerto Rican sugar in Europe. The United States had become not only Cuba's most important market, but also one of its most important suppliers of imports.[46] This trend is evidenced in Table 1. Protection of colonial rule, always at odds with Cuban external trade, kept Spain mindful of past attempts at North American acquisition of the island. Concern that the United States would more actively support the Ten Years War, and awareness of the existence of a group of Cuban revolutionaries raising support in the United States strengthened the protectionist attitude of Spain. Nevertheless, Cuban trade with the United States was essential to the Cuban economy and after years of conflict over procedures, Spain finally

Table 1

TOTAL DOLLAR IMPORTS FROM CUBA TO UNITED STATES
EXPORTS FROM UNITED STATES TO CUBA

YEAR	IMPORTS	EXPORTS
1879-1880	$63,649,656	$12,731,055
1884-1885	57,181,497	10,910,753
1887	49,515,434	10,546,411
1888	49,319,087	10,053,560
1889	52,130,623	11,691,311
1890	53,801,591	13,084,415
1891	61,714,395	12,224,888
1892	77,931,671	17,953,570
1893	78,706,506	24,157,698
1894	75,678,261	20,125,321
1895	52,871,259	12,807,661

Sources: Congress, House, Executive Documents, 46th Cong., 2d sess., 1879-1880. Washington: Government Printing Office, 1880.

Congress, House, Executive Documents, 48th Cong., 2d sess., 1884-1885. Washington: Government Printing Office, 1885.

Congress, House, Executive Documents, 53rd Cong., 2d sess., 1893-1894. Washington: Government Printing Office, 1895.

Commercial Relations, House Documents, 54th Cong., 2d sess., 1895-1896. Washington: Government Printing Office, 1897.

The Foreign Commerce and Navigation of the United States, House of Representatives, 55th Cong., 2d sess. Washington: Government Printing Office, 1897.

Note: Includes domestic and foreign products shipped from the United States

succumbed to United States pressures to reduce and clarify customs regulations. Three years after the war, it issued a new set of rules. These proved to be complex and not uniformly enforced.

From 1883 to 1884, the economy of Cuba became increasingly depressed. Profits from sugar and all other industries and professions dropped, reducing government revenues further. Banks failed, and capital contracted. Taxable profits on industry, commerce, and the professions dropped from $17,388,125 in 1877 to $12,075,465 in 1883; charges on real estate rose insignificantly, from $13,474,136 in 1877 to $13,685,733 in 1883; on farms (including sugar, tobacco, and cattle ranches), profits dropped from $26,183,581 in 1877 to $22,700,951 in 1883. The taxable income of Cuba had been reduced from $132,457,194 in 1862 to $48,562,153 in 1883.[47]

Finally, in 1884, the Spanish government abandoned the differential flag system for United States trade.[48] The duty war reached a temporary peace. In return, the United States was to monitor the problem of tax evasion by sugar exporters.[49]

Like previous reforms, the revocation of the flag system was not conscientiously observed, and the United States continued to protest to the Spanish government over unfair charges.[50] In 1890, the United States finally announced a new policy on customs, which would overtax imports from countries that applied discriminatory taxes on United States exports. Cuban producers had also been dissatisfied with the new customs regulations. To address the issue, a local Board of Tariffs and Appraisements was created to help negotiate a trade agreement with the United States.[51]

A new treaty was developed, the Foster-Cánovas Agreement, which remained in effect from 1891 to 1894. It reduced customs duties on United States products to Cuba and extended imports to the United States of unrefined sugar, molasses, coffee, tea, and animal products. The effect for Cuba was immediate and long-term: production of sugar increased, but the final stages of refining became the nearly exclusive domain of the United States. While the reciprocity treaty allowed free duties for industrial machinery, acquiring this technology in Cuba would continue to be a problem. Replacing it with machinery produced in Cuba would prove to be impossible.[52]

The effect of this treaty on the Cuban Treasury was significant. To offset its losses from the new tariff arrangement, Spain simply imposed new sugar duties in a different form. They were designated as manufacturing taxes, and the local Treasury became the collecting agent to avoid the allegation that it was an export tax. This and other taxes were opposed by the Board of Planters, the Chamber of Commerce, Cigar Manufacturers Union, Committee of Economic Propaganda, and the entire press.[53] Initially, this manufacturing tax created further conflicts between growers and industrialists over who should bear the burden, but they finally joined together to petition the Overseas Minister to suspend the manufacturing tax on sugar and molasses.[54]

With the suspension of the Foster-Cánovas Agreement in 1894, and imposition of the Wilson tariff, old duties were reestablished. The same year, Cuba reached an all-time high in sugar production: over one million tons. Since prices for sugar had not risen above the 1884 rates, however, increased production did not create enormous

wealth or investment income for planters. The Havemeyer Sugar Trust had effectively controlled the price of raw sugar in the United States market.[55] The sugar industry remained indebted to the brokers and bankers for the equipment purchased for expansion, as well as the loans advanced before the crops were harvested.

The economy faced another economic crisis. Just as Spain faltered in its efforts to mediate the developing class struggle taking place at home, it would also fail to control the crisis developing in Cuba. Like Spaniards, Cuban planters and millers also demanded credit availability, technology, arable land, and expansion of markets. But because the two territories were developing economically at vastly different rates, Spain could not insure that these needs could be met. Factors of production and the value of their exports in the world market set the colony and metropolis apart. Their economic differences inevitably forced political conflicts in the colonial relationship.

Cuba lacked responsive institutions and policies necessary for meeting the economic problems that deepened between 1878 and 1895. Post-war reconstruction required measures of economic security in obtaining credit, meeting debts, purchasing materials, and predicting the economic future. For any degree of economic progress to take place, another set of conditions were necessary, including adequate capital and agents for investment, a stable currency, access to responsive institutions, capable officials, and consistency in economic policies. With increased labor costs after abolition, planters sought improved machinery that could replace labor wherever possible. Moreover, the concentration of land proceeded through this period, and

millers required technology capable of handling larger units of sugar. Increased production required improved transportation systems, especially rails, to move the sugar to markets. Storing the exports required better port facilities.

In Cuba, local finance capital was not available to promote and sustain these developments, as the following examination of banking and investment will illustrate. Nor did the other requisite conditions prevail. Spanish monetary and fiscal policies governing currency, taxes, and banking hindered rather than enhanced economic recovery and development. In addition, the opportunity for <u>criollos</u> to acquire and mobilize finance capital for ventures outside the sugar industry was also affected by capital scarcity. Over a relatively short time, the United States became not only a market for Cuban raw products and a supplier of finished goods, but also a source of capital. It was, however, capital that remained tied to the sugar monoculture. In the process of establishing this financial relationship, the economic and political future of Cuba became inextricably intertwined with that of the United States.

Notes

1. Gabriel Tortella, "Spain, 1829-1874," in Rondo Cameron, ed., Banking and Economic Development, (New York: Oxford University Press, 1972), 95. For a discussion of latifundias in Spain, see Victor Alba, Catalonia (New York: Praeger Publishers, 1975), 642-643.

2. Jaime Vicens Vives, An Economic History of Spain, trans. Frances M. López-Morillas (Princeton: Princeton University Press, 1969).

3. Alba, Catalonia, 70-71. Terrorist attacks on political and religious leaders, including Alfonso XII and XIII, Antonio Canovas, Cardinal Soldevila, and General Martinez Campos, persisted from 1878 to the 1890s. Attacks on property owners and mills led some industrialists to organize their own police forces.

4. For an in-depth discussion of caciquismo see Robert W. Kern, Liberals, Reformers, and Caciques in Restoration Spain, 1875-1909 (Albuquerque: University of New Mexico Press, 1974): "Caciquismo . . . temporarily superceded orthodox liberalism. . . . It was a socio-political system, dependent on extreme forms of patronage dispensed by a diffuse localized oligarchy, and useful as a means of reducing intra-class friction through the use of the cabinet apparatus as a control device and at a place where national, or even international economic contacts could be made." (17) Gerald Brenan, The Spanish Labyrinth (Cambridge: University Press, 1964), 1-36, also argues that the persistence of caciquismo from the 1840s to 1917 discouraged political participation by the majority.

5. Alba, Catalonia, 51.

6. Raymond Carr, Spain, 1808-1939 (Oxford: Clarendon Press, 1966), 204, 278, 322, 366. Sagasta had resigned previously (1872) over a scandal involving an unauthorized transfer of 2 million pesetas from the Cuban budget.

7. Gabriel Tortella, La banca española en la restauración, 2 Vols. (Madrid: Banco de Espana, 1974), II, 79-97.

8. Vicens Vives, An Economic History of Spain, 619.

9. Alba, Catalonia, 54.

10. A. Ramos Oliveira, Politics, Economics and Men of Modern Spain, 1808-1946, trans. Teener Hall (London: Victor Gollancz Ltd.,

1946; repr. New York: Arno Press, 1972), 119-120. Ramos suggests that as much as 78 percent of the taxable property was not being reported.

11. Vicens Vives, An Economic History of Spain, 710, and Vice Consul General Henry Hall to Second Assistant Secretary of State William Hunter, March 20, 1869, Dispatches from United States Consuls to Havana, 1783-1906, Records of the Foreign Service Posts of the Department of State, Record Group 84, United States National Archives, Washington, D. C. (Hereinafter cited as RG 84/Havana.)

12. Vicens Vives, An Economic History of Spain, 697.

13. The Spanish lottery, established in Cuba in 1810-1812, is one of the oldest and most continuous in the world and deserves further scrutiny in terms of its relationship to fiscal solvency. As much as one third of the government revenues could come from the lottery and receipts did not fluctuate greatly. Vice Consul General at Havana Henry Hall to Assistant Secretary of State F.W. Seward, November 27, 1878, RG 84/Havana. Also Ena Mouriño Hernández, El juego en Cuba (La Habana: Ucar, García, y Cía, 1947), D. Mariano Cancio Villa-Amil, Situación económica de la isla de Cuba (Madrid: Miguel Genesla, 1876), 235, and "Administración principal de loterías," and "Real lotería de la isla de Cuba," Legajo 816, Ultramar (Hacienda), June 30, 1879, Archivo Histórico Nacional, Madrid. (Hereinafter cited as AHN.) Winnings could be very lucrative, but as time went on, it became more impossible for the government to redeem them. Edwin Atkins, Sixty Years in Cuba (Cambridge: Riverside Press, 1926), 84-89, and letter to Bank of Spain from Governor General, 1892, Ultramar (Gobierno), Legajo 4873, AHN.

14. D. E. Sickles, Madrid Legation, to Secretary of State Hamilton Fish, June 12, 1872, Dispatches of the United States Ministers to Spain, 1792-1906, General Records of the Department of State, Record Group 59. (Hereinafter cited as RG 59/Spain.)

15. Sickles to Fish, October 8, 1872, RG 59/Spain.

16. Sickles to Fish, August 16, 1872, RG 59/Spain, and Banker's Magazine 42 (November 1887): 367.

17. Vicens Vives, An Economic History of Spain, 721, and New Constitutional Laws for Cuba (New York: Blumenberg Press, 1897), 146.

18. Vicens Vives, An Economic History of Spain, 715-719.

19. Ibid., 715, and Bankers Magazine 33 (May 1879): 886.

20. Vicens Vives, An Economic History of Spain, 719.

21. Ibid., 715.

22. For the background of this move, see Tortella, "Spain, 1829-1874," 91-121.

23. Vicens Vives, An Economic History of Spain, 658.

24. Tortella, "Spain, 1829-1874," 106-121, and Tortella, Banking, Railroads, and Industry in Spain, 1829-1874, (New York: Arno Press, 1977), and Carr, Spain, 1808-1939, 265.

25. Vicens Vives. An Economic History of Spain, 728-29.

26. Boletín Oficial del Ministerio de Ultramar (Madrid: Imprenta Nacional, 1879), May 16, 1879, 534.

27. España y Cuba: estado político y administrativo (Montevideo: n. p., 1896), 56.

28. Ibid., 132-140.

29. On November 3, 1877, the Spanish government issued a decree requesting reports of rural and urban fincas destroyed by war actions and offering extensions for government "contributions." "Para el cumplimiento del Decreto del Gobierno General de Cuba," Colección Legislativa de España, Vol. 128 (Madrid: Ministerio de Gracia y Justicia, 1880), Ultramar 331, (Hereinafter cited as Colección Legislativa.) and Gaceta de La Habana, May 15, 1886. Ministerio Hacienda Alejandro Olivares to Gobierno General de Cuba, Legajo 816, Ultramar (Hacienda), 1878, AHN contains information on the status of many estates.

30. Rebecca J. Scott, Slave Emancipation in Cuba: the Transition to Free Labor, 1860-1899 (Princeton: Princeton University Press, 1985), 233-234.

31. Felix M. Goizueta-Mimo, "Effects of Sugar Monoculture Upon Colonial Cuba" (Ph.D. dissertation, University of Pennsylvania, 1971), 132.

32. Hall to Seward, November 27, 1878, RG 84/Havana, and French Ensor Chadwick, Relations of the United States and Spain (New York: Russell and Russell, 1968), 403-404.

33. Hall to Seward, November 27, 1878, RG 84/Havana, and Banker's Magazine 35 (March 1881): 701. For an analysis of the advantages and disadvantages of debt financing in this period, see Shutaro Matsushita, The Economic Effects of Public Debts (New York: AMS Press, 1969).

34. Chadwick, Relations of the United States and Spain, 403-404 and John W. Foster, Madrid Legation, to Secretary of State Frederick Frelinghuysen, July 31, 1883, RG 59/Spain, and Boletín Oficial del Ministerio de Ultramar, May 16, 1879, 534, and Consul General at Havana Ramon O. Williams to Assistant Secretary of State William Wharton, January 30, 1891, RG 84/Havana.

35. Hall to Hunter, March 20, 1869, RG 84/Havana.

36. Acting Consul General at Havana Henry de la Reintrie to Seward, November 14, 1868, RG 84/Havana.

37. A report by Hall to the State Department, March 6, 1880, RG 84/Havana, discussed the case of Louis Stocker, who bought "El Eco" plantation from Don Fernando Peralta in 1871, and changed its name to "Santa Rita." Unable to pay the "extraordinary" tax in 1875, Stocker was forced by the government to contribute 1 percent of his work force to construct the famous trocha and to help the municipal government fortify the village of Quemado.

38. German citizens successfully negotiated a special arrangement with Spain concerning deferment of "extraordinary" taxes. United States citizens were not afforded the same privilege, and they protested through their legation. Williams to Seward, September 4, 1878, RG 84/Havana, and letter from J. R. Lowell, Madrid Legation, to Duke of Tetuan, 1879, RG 59/Spain. The issue of North American citizenship was a complicated one in the late nineteenth century. To 1875, there were no federal laws regarding admission of aliens to the United States and state laws faced Supreme Court injunctions. By act of March 3, 1875, the government began its immigration policies, prohibiting contract labor in 1885-1887. Frank L. Auerbach, Immigration Laws of the United States (New York: Bobbs-Merrill, 1961). Cubans, therefore, traveled freely to the United States and took up North American citizenship, especially during the Ten Years War, and returned to Cuba later. There they sought protection by the United States consulate. In 1880, the Governor General decreed that foreign residents had to purchase cédulas through the provincial governments and district mayors rather than the consulates. (Hall to Department of State, January 4, 1881, enclosure of Decree of Governor General of December 21, 1880, RG 84/Havana.) To obtain their certificates of nationality, U. S. citizens registered with the consul office. A list of 2492 citizens compiled in 1879-1880 showed only 875 were natives of the U. S. Their professions included engineers, doctors, lawyers, clerks, coopers, housekeepers, masons, glassmakers, photographers, and pharmacists. Hall to Assistant Secretary of State John Hay, April 13, 1881, RG 84/Havana, and Havana Consul Adam Badeau to Assistant Secretary of State John Davis, December 19, 1882, RG 84/Havana.

39. Hall to Department of State, July 16, 1879, RG 84/Havana, enclosure.

40. Banker's Magazine 35 (July 1880): 45. These certificates of nationality, identity and domicile were perceived as forms of tax. Hall to Department of State, January 4, 1881, RG 84/Havana, and Cuban Economic Research Project, A Study on Cuba (Coral Gables: University of Miami Press, 1965), 52. (Hereinafter cited as Study on Cuba.)

41. Williams to Assistant Secretary of State James D. Porter, March 20, 1886, RG 84/Havana, and Williams to Porter, April 1, 1886, RG 84/Havana. Even the tax on fresh meat consumption reflected problems in the sugar industry. Cattle no longer used for cane hauling and oxen not used for grinding reduced breeder and grazing profits enormously. Taxing fresh meat further strained the industry. Williams to Porter, May 1887, RG 84/Havana.

42. Williams to Wharton, February 18, 1893, enclosure from El País February 17, 1893, and Williams to Assistant Secretary of State Josiah Quincy, July 3, 1893, enclosure from 1 July 1893 El País, RG 84/Havana.

43. Study on Cuba, 52, 54. However, products necessary for the subsistence of the working classes, such as jerked beef, beans, lard, fish and onions, had surtaxes of 25 percent reduced by decree in 1882.

44. Williams to Assistant Secretary of State William Rives, November 21, 1888, RG 84/Havana.

45. De la Reintrie to Seward, May 7, 1868, and Hall to Secretary of State Hamilton Fish, April 30, 1869, RG 84/Havana, as well as Antonio Mantilla, Envoy Extraordinaire and Minister Plenipotentiary of Spain to William Evarts, October 19, 1877, and Hall to Seward, November 2, 1877, RG 59/Spain.

46. Products exported to Cuba from the United States included many kinds of foods, consumer goods, and machinery.

47. Williams to Davis, August 27, 1884, including enclosure from "Havana Weekly Report" of August 23, 1884, RG 84/Havana.

48. Foster to Frelinghuysen, January 3, 1884, RG 59/Spain.

49. Ibid., January 4, 1884. Taxes on sugar exports were based on grade, with the highest refined white sugar taxed highest. To avoid higher duties, some millers added coloring. Hall to Seward, May 6, 1879, RG 84/Havana.

50. T. F. Bayard to J. L. M. Curry, February 23, 1886, RG 59/Spain.

51. Williams to Porter, March 26, 1886, RG 84/Havana.

52. Goizueta-Mimó, "Effects of Sugar Monoculture Upon Colonial Cuba," 118-165.

53. Williams to Wharton, February 2, 1893 and March 2, 1893, RG 84/Havana. Also enclosure of La Lucha, 5 June 1891 in Williams to Wharton, June 6, 1891, RG 84/Havana.

54. Williams to Wharton, March 2, 1893, and to Assistant Secretary of State Edwin F. Uhl, December 1, 1894, RG 84/Havana.

55. Goizueta-Mimó, "Effects of Sugar Monoculture Upon Colonial Cuba," 71-73.

CHAPTER III

THEORETICAL FRAMEWORK: THE FORMATIVE RELATIONSHIP BETWEEN BANKING AND ECONOMIC DEVELOPMENT

Development in capitalist societies involves both growth and structural changes in the economy. It depends on a variety of factors: philosophical and cultural predispositions, national and international market conditions, differences in the factors of production, and the historical effects of colonialism or colonial power.[1] These issues have been analyzed by political scientists, historians, and sociologists in attempts to comprehend the causes not only of the Industrial Revolution, but of imperialism and contemporary underdevelopment. By examining the causes of underdevelopment, theorists have attempted to formulate strategies and solutions for achieving development.[2]

Economic historians interested in the development process have focused more directly on the changes in and relationship between factors of production and the early stages of technological growth than on political factors. Studies of feudalism, slavery, debt peonage, guilds, unions, and artisan and peasant workers have provided insights into the cultural and economic factors affecting the evolution of productive forces. Research on historic and contemporary land tenure patterns helps explain factors inhibiting product diversification, the creation of local markets, and changes in class structure.[3] Research on capital has been more limited in comparison and tends to focus on comparisons of trade balances, gross national products, and foreign investment.

However, recent studies on the processes of capital mobilization and exchange, and the agents and institutions involved in the early stages of development have provided new dimensions to the study and understanding of underdevelopment.

In these studies, researchers have focused on the problems of accumulating and mobilizing capital. They have found that, especially in capital-importing countries, the nature of this process directly affects a nation's ability to invest in Social Overhead Capital (SOC: especially, transportation and communication facilities). Such investment is one of the critical factors in the development process. Initially, the expansion of roads and highways to link remote areas to each other and to the main trade and political centers contributes to the interaction between regions. Improving accessibility between regions can also increase economic and cultural homogeneity of areas with diverse resources and cultures. By providing transportation and communication linkages, internal trade is facilitated and stimulated. Potentially, regions can expand according to resource endowments and thereby increase the centers of economic and political control. State supervision of the economy is also enhanced, as regionalism gives way to uniform implementation of rules and procedures and society becomes more organized toward common economic purposes.

The development of rail systems, shipping, and port facilities helps extend this process further. By developing the capacity to move greater quantities of goods, the production and market systems can maximize trade both internally and externally. In addition, the private investment in and expansion of rail systems that connect the periphery and ports can be a source of profits which are, in turn, available for

investment in other productive enterprises. These include both the development of raw materials necessary to the creation and perpetuation of the rail industry and other capital or consumer goods capable of production for internal or external markets.

Investment in the infrastructure, however, cannot be accomplished without financial intermediaries and the effective expansion of credit systems. Financial intermediaries provide the finance capital, organization, and expertise necessary for the development process. By acting as agents for re-combining productive forces and altering the use of existing resources, financial intermediaries facilitate the creation of new goods, innovations in production and organization, expansion of markets, and expansion of production of raw materials and, ultimately, manufactured goods.[5]

A different form of purchasing power, credit, is a necessary component of the development process. Through the credit system, surplus is channeled towards the creation of more surplus. In this way, entrepreneurial profit and credit establish the means by which capital can expand and development can take place.[6] By extending credit, the financial intermediary creates purchasing power for the entrepreneur. The entrepreneur then has access to the social stream of goods and services and the potential for creating additional capital for himself and the financial intermediary.[7]

Credit provides the opportunity for the entrepreneur to accumulate capital and invest before and without amassing hard currency. The financial intermediary, on the other hand, profits from granting credit by charging for the service, and in some cases, by investing the resources of the institution. These costs of borrowing are a function

of not only supply and demand, but also of government control. Under optimum conditions, the total credit system provides the means by which productive forces are re-channeled towards innovation, and the creation of finance and industrial capital.[8] Given this importance of the role of credit and credit institutions in mobilizing and utilizing capital, examining the behavior and role of banks and bankers in the early stages of industrialization can help explain the processes and conditions that prompted or repressed industrialization in specific times and places.

At any stage of development, financial institutions perform several functions in society: as intermediaries between savers and investors; as suppliers of all or part of the money supply; and sometimes as suppliers of entrepreneurial talent and guidance that can look for and exploit potentially profitable undertakings.[9] Success or failure in achieving the first and later steps in technological development can therefore be shaped by the effectiveness of financial intermediaries in carrying out their roles.

Defining the nature of the banking structure is a pre-requisite to understanding its function. Differences or similarities in banking structures can be measured by examining the ratio of banks to population or area, the proportional relationship between bank assets and national product or wealth, size distribution, and geographical concentration and dispersion.[10] The structure and function of the institution may then be analyzed in terms of its role in the economy at a specific time and for specific industries.

Previous research into the relationship between banking and industrialization has resulted in some general guidelines for analyzing the role of banks in accumulating, mobilizing and utilizing capital.

The first of these suggests that where banking systems are underdeveloped, the right or privilege of note-issuing provides the most effective means for expanding the number of banks and habituating the public to use financial intermediaries.[11] By providing the money supply, banks force interaction between the institution and ever-increasing portions of the society. As bank money becomes an acceptable medium of exchange, more banking institutions can develop to participate in the process. Over time, the institutions are regarded as both familiar and stable, and more sectors of the population decide to engage their services. Ideally, this increases bank access to medium and small savers and concomitantly increases the capital the bank has available for investment.

The second guideline for analysis suggests that the larger the proportion of the population having access to banking, the more effectively banks operate.[12] Banks serving a limited population, either by area or by industry, lack the broad base of accumulation variety necessary for mobilizing or using capital effectively. By serving narrow purposes or sectors, banks lack the diversity of deposits and demands that stimulate economic expansion. They become tied to the static needs of a defined population, reducing the opportunity and advantages of risk and investment.

A third consideration is that the ability of the bank to accumulate and utilize capital effectively is a function of its size.[13] For example, the bank that begins with fifty thousand shares of $500 each can afford to extend more credit, maintain more accounts, and invest in more enterprises than a bank that begins with one thousand shares of $100 each. The proportion of risk for the smaller banker can limit its ventures, and therefore profits.

Finally, it appears that competition in banking contributes best to the growth of institutions and the development of conditions necessary for industrialization.[14] Competition over type and cost of services, or even location, promotes the entry of innovations and new entrepreneurial talent into banking. As more institutions emerge, access to capital and credit increases, which may have the effect of reducing interest rates on loans and stimulating investment. Access by larger proportions of the population increases, which leads to increased effectiveness.

The banking structure does not, of course, operate in isolation. At any specific juncture, political direction of the economy plays a role in hindering or fostering the ability of financial intermediaries to perform their functions in the development process. When financial agents and industrial firms can organize units of production toward industrialization under the direction of a strong state, capital concentration and monopoly can result. The strong state can also establish politically the international conditions necessary for capital expansion abroad. Finance capital then plays a role in international expansionism and conflict.[15]

In contrast, in the state that does not provide the political conditions necessary for the development of productive forces, industrialization is incomplete or limited. Conflicts over access to political power, institutions that can not be modified to accommodate changing economic needs, and inappropriate or ineffective monetary and fiscal policies can hold back technological development by not creating an appropriate environment for native technology to begin. To some degree, banking systems develop according to the attitude of the state toward them and the ability of the state to allow them to fulfill their

roles most efficiently and effectively. The government must "assure minimal conditions of both financial and political order and refrain from *ad hoc* interference that increases uncertainty for long-range investment planning."[16] In other words, the potential investor requires measures of economic and political stability before he is willing to take risks. If financial or political rules are subject to constant, unpredictable change, no banking system can effectively contribute to industrial capital formation.

The theories on the relationship between banking and the early stages of industrialization proceeded from analyses of systems in several countries at various stages of technological development.[17] For the less developed countries, further analysis has focused on the link between the history of railroads, agricultural diversification, and industrialization.[18] Differences of opinion have been expressed over whether to view rail development as a preparation for development or as a result of increased investment in agriculture and industry at a specific location. These positions have relevance for analyzing the potential for industrialization in late nineteenth century Cuba.

In some ways, Cuba had better potential for economic growth and development than metropolitan Spain. Indeed, its rail systems, urbanization rate, trade, and cultural homogeneity compared favorably with those of Spain. Under Spanish colonialism, the Cuban colony failed to channel productive forces towards substantial development. To some extent, these problems related to land tenure and labor systems, resource endowments, and class structure. The nature of colonialism itself precluded the possibility of moving beyond a preindustrial

status. Protection of peninsular production, the increasing importance of revenue from sugar export tariffs for the Spanish budget, and the socio-economic history of Cuba all ensured the perpetuation of the sugar monoculture to some degree. Another factor also contributed to both lack of diversification of agricultural products, economic crisis, and an underdeveloped infrastructure: the nature of the Cuban banking and credit system.

The structure and functions of Cuban credit systems, including not only the major banking institutions but other financial intermediaries, adversely affected the economic climate in Cuba between the end of the Ten Years War and the beginning of the independence war. Moreover, the colonial direction of the economy through fiscal and monetary policies and institutions determined the effectiveness of colonial banking systems. The ability of agents to accumulate and mobilize capital in the colonial system was inadequate for not only any degree of change in the economic structure, but for the needs of the sugar economy in transition.

Because of the unique relationship between Cuba, Spain, and the United States, analysis of Cuban banking and economy deepens in complexity. Cuba was a colony controlled by a metropolis unable to completely develop its resources or dispose of its products. The United States, more developed than Spain, had both the ability and interest in marketing goods and services--including credit--in Cuba, and in purchasing its products. It was this inter-relationship between the three that also affected the political and economic outcome for Cuba. Initially, how Spain directed Cuba and developed productive forces affected the course of the Cuban history to 1898. Ultimately, how the

United States increased participation in the Cuban economy affected the course of Cuban history after 1898.

Before examining Cuban banking, it is necessary to understand the nature of the economic environment in Spain. In the early nineteenth century, Spain entered a new phase of economic activity. The Commercial Code, outlining acceptable business practices, was developed in 1829. Proclaimed by the government as "one of the most perfect works of juridical art of its time," it was completely revised in 1886.[19] Among other issues, the code dealt with banking responsibilities and procedures and included articles specifically applicable to Cuba and Puerto Rico. Through this and other rules and decrees, the functions of the major banks of issue, investment banks (<u>sociedades de crédito</u>), and many business transactions were circumscribed by law. The government set limits on bank location, capitalization, interest rates and fees, and note-issuing ability. It also selected bank officers and required public reporting of finances. Little in commerce was left to free market forces or privacy.

To keep a record of businesses and businessmen, the <u>Registro Mercantil</u> was created in 1829.[20] Two years later, the Madrid Stock Exchange (Bolsa) provided the opportunity for companies to capitalize with public shares. These innovations reflected a new interest by the government in establishing guidelines and institutions for economic development.

One of the agents for change, the Bank of St. Ferdinand, was founded in 1829. Initially it acted as official custodian of judicial deposits.[21] Over the next twenty-five years, few other banks organized. Then between 1855 and 1865, a number of credit institutions expanded

throughout the Spanish provinces. This growth was due partly to improved economic and political conditions and partly to faith in the economic future following the government's announced plans to pay the public debt. More important, the growth followed the 1855 railroad law, which gave government support to establishment of national rail systems.[22] It was anticipated that credit institutions could foster the development of these transport systems as well as the industries that improved transport would promote.

Through the passage of the new 1856 banking laws, other banks were granted charters and note-issuing rights. The government exercised further control over these activities through the appointment of the governor of the Bank of Spain in Madrid (formerly the Bank of St. Ferdinand) and through a Royal Commissary for other banks.[23] Clearly, the government intended to supervise most aspects of business and finance, which may have had some effect on the formation of enterprises. Among the credit institutions established were investment banks, forms of savings banks, branch offices of the Bank of Spain, banks organized by French and British entrepreneurs, and issuing and non-issuing joint stock operations interested in various business ventures.[24]

The majority of the assets of French companies were invested in railways.[25] Domestic capital, including that from credit companies in Barcelona and Valencia and note-issuing banks in Madrid, Seville, Valladolid, Saragosa, Santander, Bilbao, and Coruna, also invested heavily in railroads. Other investments were made in the public debt, gas works, real estate, and coal.[26] Profit from trade and industry, rather than profit from agricultural savings, was the source of this investment capital. Banking entrepreneurs did not emerge from the large

landowning class, seeking more efficient transportation for agricultural goods and greater involvement in modern economic processes. They arose instead from the merchant sector involved in the marketing of goods.[27] Landowners seemed to lack interest in the process of capital expansion, investment in new technologies for expansion of the agricultural sector, and in diversification.

Investments in industry and manufacturing were relatively limited compared to investments in rails. Examination of credit societies, which were specifically organized to underwrite particular business needs, indicates that capital available for investment tended to support rails rather than factories. Since the largest non-issuing banks investing in rails represented 70 percent of the combined capital of issuing banks, capital available for other technological development was relatively reduced. Nor was this need met by the largest note-issuing bank, the Bank of Spain. Its activities centered on loans to the government and short-term loans to the private sector (in the form of discounting bills, for example).[28] And since foreign and domestic investment in rails exceeded investment in other industries, the railroads had minimal value for the limited internal commerce. But the era of rail expansion seemed to promise certain returns on investments, both for individuals and for the nation. Failure to deliver seemed unlikely at the time.

But the expansion of the railway and credit systems did not result in either high profits for the investors or increased industrialization. In fact, it has been suggested that railway construction was an obstacle to economic development.[29] In Spain, high investment in Social Overhead Capital expanded beyond utility. Investment in rails not only failed to

provide the stimulus for investment in other industries, but also diverted capital from those investments. This phenomenon was a function of national resource endowment, government policies, and economic conditions.

The railroads imported most building materials and equipment. The investment in coal and other materials necessary for factory and rail production lagged far behind demand. The problem of developing rail systems further became more difficult when, between 1864 and 1868, the economy entered a severe depression. Prices dropped, unemployment rose, and rebellion increased. Weather and financial problems reduced production in the agricultural sector. Capital needs reached a crisis when the government tried to force circulation of worthless bank notes while precious metal exports increased. As a consequence, many of the banks and credit companies went bankrupt in 1866. The Bolsa closed temporarily and panic and crises gripped industrial workers and investors.[30] The initial effort toward industrial development failed. The economy now emphasized recovery.

The 1868 liberal revolution and 1871 constitutional monarchy attempted to improve the business climate though various reform measures, including eliminating the inspectors in credit companies and the Royal Commissary in issuing banks. By now, however, Spain faced open insurrection both at home and in Cuba, increasing its expenses and indebtedness at a time when the economy was depressed. The cost of borrowing on foreign markets increased further with the Franco-Prussian War and European economic contraction. The government was forced to turn to the domestic banks for assistance.

At this point, the Bank of Spain became more firmly tied to the needs of the state. Its initial move in this direction began in 1864, when the government decided to raise capital by issuing interest-bearing mortgage notes on sales of national property acquired earlier through disentailment laws. It gave the Bank of Spain the right to issue, pay interest on, and redeem these notes. For a 1 percent commission, the Bank held as security the purchasers' obligations and the right to enforce payment, while the Treasury promised to reimburse the bank for any defaulted payments.[31] The Bank of Spain continued this function until 1875, when the Banco Hipotecario was given the government's monopoly on the right to issue mortgage bonds.[32] At the same time, other mortgage banks entered the system or expanded.[33]

In 1874 the government gave the Bank of Spain a monopoly on note-issuing and encouraged provincial banks to become branches of the Bank of Spain. Eleven institutions complied, and the Bank of Spain entered a new phase of activity associated with establishing the fiduciary currency and acting as agent for the government in Treasury matters.

Between 1876 and 1888, the Bank of Spain and its branches became collectors of all direct taxes. The Bank also increased loans to the government which were used to cover yearly operating expenses and service the public debt. The distinction between Treasury responsibilities and bank business faded. Between 1882 and 1888 the Bank was authorized to pay arrearages on the public debt.[34] After 1888, it obtained custody over all Treasury revenues and was given authority to pay claims against the Treasury. The Bank developed many attributes of a national bank, while keeping its status as an agent for public and

private transactions. It continued to provide government loans and supply funds for payment of the public debt, but also carried on business with the private sector.

Organizationally, the Bank acquired capital through sales of shares, which sold for 500 pesetas each in 1874.[35] Shareholders had only one vote and met each March, following publication announcements in La Gaceta de Madrid. Shareholders chose the administrative council (Consejo de Gobierno), but the council required royal approval. It shared management responsibility with a governor appointed by the king, and two sub-governors who were appointed by the king from nominations by the Council. The governor was the accountable officer of the bank, signing agreements, and approving or vetoing bank transactions. The council and its committees--executive, administrative, audit, and branch--dealt with procedural, accounting and personnel matters, including negotiating with the government on note-issue amounts, foreign agent appointments, and revision of by-laws. With government control over its leadership, organization, activities, and procedures, the Bank was unable to act autonomously.

Bank policies for maintaining current accounts, security deposits, and discounting bills, and data on its assets reflect its lack of interest in either small accounts or industrial investment. To open an account, the first deposit had to be a minimum of 2,500 pesetas in Madrid or 1,000 pesetas in the branches. Subsequent deposits had to be 250 pesetas or more. These deposits drew no interest, and checks could not be written for less than 125 pesetas.

Depositors could, for a bank commission of 2 percent a year, deposit coins, metal bars, precious stones, state funds, and securities

quoted on the stock exchange. To draw on security accounts, however, required a separate account for each security. The discount policy of the Bank was also restrictive. Those on approved credit lists could discount notes and bills of exchange only with two signatures, and one signatory had to live in the neighborhood. The other had to come from the approved credit list. The discount rate, moreover, could vary from province to province and day to day. The interest rate on loans tended to match the discount rate, and the time fixed for repayment was a maximum of ninety days. The term indicated that the Bank was not interested in long-term credit arrangements that would facilitate industrial investment.

By government decree of March 19, 1874, the Bank of Spain was given authority to establish branches in "areas of the country where there are needs for commerce and the circulation of notes."[36] These branch banks were to adopt the same note issue as the main bank in Madrid. However, this directive was apparently not followed, and local banks continued to circulate their own notes. The Bank of Spain in Madrid was criticized for not actively enforcing this rule as late as five years after the directive.[37] Nevertheless, over time the bank notes acquired the status and function of a "non-forced" national currency as metal currency became more scarce.

The "central" bank retained fairly strict control over the activities of the branch banks, particularly through the appointment of employees, and establishment of operating guidelines, and reporting procedures. But as the discount rate policy suggests, although the Bank aimed at uniformity in branch banking, some modifications were necessary in different locations. More research may indicate how the relationship

between the main bank and branches contributed to or limited bank ability to mobilize and utilize capital.

The decline of competitive banking in Spain in this period and the failure to industrialize suggest the validity of the relationship between bank competition and technological development. Post-1874 expansion of the Bank of Spain did increase public accessibility to banking. Also, note-issuing policies habituated the public to accept banking functions since the government accepted these notes in payment. On the other hand, the amount of capital required for establishing and maintaining accounts and the policies on quick repayment of loans clearly made the banking system accessible only to the wealthier classes. There may be no reason to assume that the expansion of banking in the 1860s increased public use of banking services, since evidence suggests that most of the capital came from industry, and much of Spain continued to focus on agricultural production. The bankruptcies of the late 1860s undoubtedly undermined faith in banking as well, and the developing relationship between the state and the Bank of Spain may not have engendered confidence in the economic outlook.

By the end of the century, Spain's economy had been though several severe crises. The Cuban insurrection and the depressions of the 1880s and early 1890s forced increases in the public debt and further reliance on the Bank of Spain to provide capital to keep the Treasury operating. In 1891, the state borrowed 150,000,000 pesetas--without interest--from the Bank, which immediately adversely affected the Spanish exchange rate and further depreciated the paper currency.[38] The inability of the Bank of Spain and the Spanish government to initiate economic policies

appropriate to meet immediate and long-term needs in this time of domestic and international crises seems apparent.[39] The wealthiest colony of Spain also had changing capital needs, and the systems and policies operant there proved no more capable of effective responses.

The types of credit systems available to handle Cuban capital needs have not been clearly understood by analysts of either the nineteenth or twentieth centuries. Most literature about late nineteenth century Cuban economy has not examined the role of the banking and credit. Researchers have also disregarded the significance of merchant bankers and other credit sources and therefore obscured their role in capital formation. A Study on Cuba stated that credit functions provided by merchants waned at the beginning of the nineteenth century and were gradually replaced by banks like the Banco Español de La Habana and the Banco de Comercio. The researchers relied on lists of banks published in 1859 and 1863 encyclopedic sources, the Gaceta de La Habana, or other secondary sources.[40]

William Clark's 1898 Commercial Cuba, on the other hand, provided an extensive list of agents in categories such as "banks and bankers," "bankers and merchants," "banks," and "bankers and commission merchants." Clark recognized the importance of all these agents in the Cuban economy but failed to understand the differences in their functions. At the same time, he seemed to recognize the importance of agents who mobilize investment capital from all classes:

> In all of Cuba there is not a single bank in which money can be placed at interest, nor a savings bank in which the artisan or laborer can deposit his earnings . . . A few large business houses . . . [engage in] a legitimate private banking business and still another class [exists], known as "banqueros" who would correspond to what are known in the United States as "note shavers," and it is to the mercy of the latter and a still worse class of usurers

> that those who desire financial obligation have been obliged to appeal, pledging crops or real estate in the most improvident manner."[41]

Clark was unclear about how the credit structure and transactions were handled in the Cuban economy and could only compare the Spanish colonial system with the United States' banking system. Seeing no direct correlation with a system that operated almost completely on agricultural credit and import of virtually all necessities, he surmised that no "true" banking system existed in Cuba. The only two banks he acknowledged were the Bank of Spain of Cuba and the Bank of Commerce.

Similarly, statements in the United States government-commissioned study, Report on the Commercial and Industrial Condition of Cuba, published in 1899, echoed Clark's statement that no interest-earning accounts could be established in Cuba. The editor had solicited the responses of many leaders of the commercial and financial sectors to analyze the status of Cuba and provide the foundation for policy recommendations on the future of Cuba. Published remarks by commercial and merchant bankers, however, focused on overviews of the economy and the needs for change. Little information was provided on the historical credit functions performed by chartered banks or other agents. Respondents agreed that only two banks remained in 1898: the Spanish Bank of Cuba and the Banco de Comercio; the first because it "enjoys official privilege" and the second because it "owns valuable property, as for example, the Regla warehouses and United Railroad."[42]

On the other hand, the published translation of the New Constitutional Laws for Cuba (1897) claimed there existed in Havana alone four banks: the Spanish Bank, the Spanish Colonial Bank, the Bank of Commerce, and the Agricultural Bank, "besides various savings

banks."[43] This was in direct contradiction to Clark and others. The work made no reference to merchant bankers or commission bankers.

More recent attempts to define accurately the Cuban banking system have been no more successful. Hugh Thomas, in Cuba (1971), stated that merchants "remained the effective bankers till after the middle of the century, though the two insurance companies of Havana did some private banking."[44] Thomas also discussed several entrepreneurs and families who had acted as slavers, sugar growers, importers and bankers. Yet he had little to say about Cuban credit institutions or systems except to acknowledge that the 1880s sugar crisis drove those without access to credit into debt and ruin.

Another historian and well-known researcher of the Spanish banking system, Gabriel Tortella, has done some preliminary analysis of Cuban credit problems from 1885 to 1895. However, although his analytic framework regarding the importance of credit provided valuable insights into the Cuban economic dilemma, he confined his understanding to the Bank of Spain of Cuba and the Bank of Commerce, seeing these as the only two sources of credit available to Cubans.[45]

To understand capital movements in the Cuban economy, more analysis of banking and credit was needed. The nature of the system and how the major institutions in the structure accommodated the needs of the economy shaped Cuba's future. Examining the historic role of these and other credit agencies helps explain economic choices not only between 1878 and 1895, but into the twentieth century.

Notes

1. The author does not intend to minimize the value or refute the logic of the many analytic approaches to understanding the causes of underdevelopment, imperialism, or revolution. All contribute to a better understanding of the development process. The literature is too extensive to cite at length, and the danger of omitting an important contributor too obvious. However, many of the analyses suffer from a lack of historical data upon which to base their conclusions, and from a marked avoidance of economic analysis outside the market level.

2. Walt W. Rostow, The Stages of Economic Growth (Cambridge: University Press, 1960), Albert Hirschman, The Strategy of Economic Development (New Haven: Yale University Press, 1958), and Raul Prebish, The Economic Development of Latin America and its Principal Problems (New York: U. N. Department of Economic Affairs, 1950) all represent this category of theoreticians whose ideas have been discussed in classrooms, State Department offices, and even presidential palaces.

3. The reasons for technological change and industrial development in Europe have been the focus of central debates in historiography. David Landes, The Unbound Prometheus (London: Cambridge University Press, 1969) opposed Marxist views of the role of agricultural concentration in the process. It also stimulated more microeconomic research into industrialization in the underdeveloped world. The relationship between technological development in the developed world and the exploitation of raw materials and labor in the underdeveloped world has been placed in a theoretical framework by authors like Samir Amin and E. J. Hobsbawn.

4. This issue began to be more fully developed following criticism of Walt W. Rostow's theoretical approach. See Walt Rostow, ed., The Economics of Take-Off into Sustained Growth (London: Macmillan Press, 1974), especially Simon Kuznets, "Notes on the Take-Off," 22-43, and A. K. Cairncross, "Capital Formation in the Take-Off," 240-260.

5. J. A. Schumpeter, The Theory of Economic Development (Cambridge: Harvard University Press, 1959), 65-68.

6. Ibid. Schumpeter had little to say about merchant-bankers or financial intermediary agents other than bankers. He was concerned, however, that his discussion of entrepreneurs not be interpreted as admiration for their activities. As he put it, "our analysis of the role of entrepreneur does not involve any glorification of the type . . . we do hold that entrepreneurs have an economic function as distinguished say, from robbers. But we neither style every entrepreneur a genius or benefactor to humanity, nor do we wish to

express any opinion about the comparative merits of the social organization in which he plays a role." (note, p. 90.)

7. Ibid., 107.

8. Rondo Cameron, ed., Banking in the Early Stages of Industrialization (New York: Oxford University Press, 1967), Cameron, ed., Banking and Economic Development (New York: Oxford University Press, 1972), and Cameron, "The Banker as Entrepreneur," Explorations in Entrepreneurial History 1 (Fall 1963): 50-55.

9. Cameron, Banking and Economic Development, 7.

10. Ibid., 8-9.

11. Cameron, Banking in the Early Stages, 295.

12. Ibid., 296-299.

13. Ibid., 300-310.

14. Ibid., 311-313.

15. Rudolf Hilferding, Finance Capital (London: Routledge and Kegan Paul, 1981). This elaboration of Marx's theory of money capital circulation and accumulation has been criticized for ignoring analysis of the structure and organization of financial institutions and industrial firms. See Anthony Cutler, Barry Hindess, Paul Hirst, and Arthur Hussain, Marx's Capital and Capitalism Today, 2 Vols. (London: Routhledge and Kegan Paul, 1978). A similar view on the relationship between finance capital and conflict was elaborated by Herbert Feis in Europe, the World's Banker, 1870-1914 (New York: Augustus Kelley, 1961).

16. Cameron, Banking and Economic Development, 19-20.

17. In addition to Cameron, see Alexander Gerschenkron, Economic Backwardness in Historical Perspective: A Book of Essays (Cambridge: Harvard University Press, 1962). Gershenkron's organizing principle for determining banking success in industrialization was the nation's degree of backwardness. Nations were categorized according to their degree of development of productive forces, including banking, during the beginning of industrialization in Great Britain.

18. Albert O. Hirschman, The Strategy of Economic Development (New Haven: Yale University Press, 1959), Celso Furtado, Development and Underdevelopment (Berkeley: University of California Press, 1967), and P. N. Rosenstein-Rodan, "Notes on the Theory of the Big Push," in Howard Ellis, ed., Economic Development for Latin America (New York: MacMillan and Company, 1962), 57-81.

19. José Gallostre y Frau, ed., Código de comercio español vigente in la peninsula y islas de Cuba y Puerto Rico. (Madrid: Viuda de Hernándo y Cía., 1887).

20. Tortella, Banking, Railroads, and Industry in Spain, 1829-1874, 31. See also José Montero y Vidal, La bolsa, el comercio, y las sociedades mercantiles (Madrid: n. p., 1884).

21. Tortella, "Spain, 1829-1874," 100.

22. Ibid., 101, and Tortella, Banking, Railroads, and Industry in Spain.

23. Tortella, "Spain, 1829-1874," 82.

24. Ibid., 101-105. It may not be accurate to refer to the Banks of Spain in other cities as true branches. As Tortella points out, they had no separate capital. Banking, Railroads and Industry in Spain, 185.

25. Tortella, "Spain, 1829-1874," 105-112.

26. Ibid., 109. Investment in the public debt was another large proportion of banks' assets.

27. Ibid., 112.

28. Ibid., 117.

29. Ibid., 119.

30. Ibid., 119-120.

31. William Graham Sumner, ed., A History of Banking in all the Leading Nations, 4 Vols. (New York: The Journal of Commerce and Commercial Bulletin, 1896). III, 239.

32. Tortella, Banking, Railroads and Industry in Spain, 541.

33. Ibid., 534.

34. Sumner, A History of Banking in all the Leading Nations, 242.

35. Ibid. For a complete discussion of the banking structure, see 243-251.

36. "Reglamento del Banco de España," Legajo 647, Archivo del Banco de España, Madrid, Spain. (Hereinafter cited as BEA.)

37. Banker's Magazine 34 (December 1879): 475.

38. In Banking in the Early Stages of Industrialization, Cameron argued that branch banking had the potential for providing large returns to stockholders, but its value in the industrialization effort depended on factors such as: 1) degree of oligopolistic control, 2) the appointment and responsibilities of employees, 3) the scale of banking, and 4) investment choices, 311-313.

39. Sumner, _A History of Banking in all the Leading Nations_, 243, and _Banker's Magazine_ 45 (August 1890): 98.

40. _Study on Cuba_, 28-29.

41. William Clark, _Commercial Cuba_ (New York: Scribner's Sons, 1898), 144.

42. Robert Porter, ed., _Report on the Commercial and Industrial Condition of Cuba_, (Washington: Government Printing Office, 1898), Appendix, 213-214.

43. _New Constitutional Laws for Cuba_, 140.

44. Hugh Thomas, _Cuba: the Pursuit of Freedom_ (New York: Harper and Row, 1971), 136.

45. Gabriel Tortella, "El desarrollo de la industria azucarera y la guerra de Cuba," _Moneda y Crédito_ 91 (December 1964): 131-164, and "La industria azucarera cubana, 1868-1895," _Moneda y Crédito_ 96 (April 1966): 15-31.

CHAPTER IV

CUBAN CREDIT NEEDS AND SYSTEMS

Credit was an essential element in commercial transactions of an economy organized around exports of raw materials and imports of virtually all finished goods. As Cuban trade expanded during the inter-war years of 1878 through 1894, and monetary crises deepened, credit became more critical to economic activity. Lack of credit availability also contributed to persistent economic instability.

Analysis of the types of systems available to perform the credit function in Cuba, and the ability of these systems to meet colonial needs, must proceed from an examination of the nature of those needs. Because of the historic development of the monoculture economy, the capital needs of the sugar industry had primary importance. Other agricultural enterprises, such as tobacco, coffee, and fruit also required access to credit systems, but in lesser degrees. Mining, on the other hand, had high capital needs, but for reasons discussed below, these were not effectively met in the sugar-dominated economy. The limited factory production on the island required operating capital, but credit problems played a part in reducing initiation of new ventures. Competition for available capital combined with other factors to inhibit development of all enterprises in Cuba.

It has been estimated that more than one-half of the capital invested in Cuba during the last twenty-five years of the nineteenth century went into the sugar industry.[1] Credit was the principal

foundation of the industry's development, required to advance the grower operating capital until crops were sold: for wages, seed, food, equipment, animals, and fuel. Credit facilitated purchases of machinery for cane grinding, rolling, and packaging. To move the cane to mills and ports and store the sugar, credit was needed for the development of rails, private roads, and warehouses. And credit was the means used to transact sales and purchases of Cuban sugar and imports of foreign industrial equipment and finished goods which came to dominate the Cuban economy. Finally, credit facilitated the purchase of Cuban sugar estates that failed during and after the Ten Years War.

After 1878, the planters and grinders of sugar cane, whether Spanish, Cuban, South American or North American, faced new pressures to survive. The war exacerbated the differences between the family-operated estates dominating the east, and the older, larger enterprises in Havana and Matanzas. Confined mainly to the central and eastern provinces, the war caused extensive damage to mills and cane fields, as well as other crops. In Santa Clara province, forty-one, or 93 percent of the Sancti Spíritus mills did not survive the war. In Trinidad, thirty-three (68 percent) of the mills closed, near Güines, fifty-seven (66 percent), in the city of Santa Clara forty-seven (55 percent), and near Cienfuegos, sixty (30 percent). In Puerto Príncipe province, all but one of the mills was destroyed. In Santiago de Cuba, all of the Bayamo and Manzanillo mills closed, sixty of the sixty-four in Holguin, and sixty-one of the one-hundred in Santiago de Cuba township.[2]

Thousands of fields were damaged, as well as many transport and communication lines. To rebuild and to pay back outstanding debts, all investors required a responsive, affordable credit system: to buy crops

to plant, to pay workers to weed and harvest, to replace damaged and/or outmoded equipment, to rebuild mills and in some cases to repair damage to rail and other transport lines. Modernization of mills also required new capital. During this period, emphasis on increasing sugar exports prompted changes in production techniques. Rather than attempt the expensive business of restoring large numbers of mills, investors expanded the productive capacity of fewer mills. Increasingly, small and medium-sized mills with limited productive capacity were consolidated into larger enterprises. In the east particularly, most sugar estates combined cane production and refining.

From 1878 to 1895, the plantation/mill owners struggled to produce enough sugar in their antiquated mills to meet the rising costs of labor, transportation, and recuperation from previous debts. Many growers, meanwhile, were forced to abandon the milling process altogether. Those who did not sell estates outright, arranged contracts to sell their cane to a central mill built or remodeled for expanded grinding capacity and capable of handling the costs of processing, packaging, and transport more efficiently. Advancement of the colono system, and increases in the process of centralization and concentration of the sugar industry proceeded through this period.[3]

International competition for sugar markets and colonial policies accelerated this change in mill and plantation structure. World production of both cane and beet sugar steadily increased from 1878 to 1895, reducing Cuban markets dramatically. Although Spain needed to develop new war recovery strategies, it was unwilling to encourage the development of industries or agricultural enterprises that might compete with its own. The traditional Cuban sugar economy seemed most capable

of survival and expansion. Nor did the Cuban planter class demonstrate interest at this point in investing in other enterprises. Centuries of sugar production tradition and lack of any incentive to diversify combined with a financial system organized around sugar to stifle product diversification.

The capability for adopting new production techniques to increase grinding capacity and improve sugar quality depended on capital resources. Although no specific data is available on exchange rates between the United States, Cuba, and Spain, relative capital values can be discerned through information on wages, salaries, and material costs. Innovations in the refining process, begun as recently as the 1830s and 1840s, were expensive to institute. One system developed in Europe, the Derosne vacuum boiler, reduced labor in the grinding and fuel source processes. Another system for refining using the centrifugal method enhanced the refining process further, but cost the equivalent of $30,000 per unit.

In addition to the purchase price, high import duties restricted acquisitions. The Soledad estate, for instance, imported an engine and mill which cost $25,439.96 (including insurance and shipping). The tariff, based on a per one-hundred kilo weight formula rather than item, was $1,206.90. Other innovations in the roller and crusher systems continued that developed through the decades proved equally costly to the sugar industry. Transport and construction costs also increased costs in Cuba. For example, those who could afford them erected steel and iron buildings to protect equipment from fire. The cost for one building was $25,000 in New York and as much as $100,000 in Cuba.[4]

Concomitant with attempts to increase sugar production after the Ten Years War, increased interest in improving transportation systems developed. As state revenues decreased, government contributions to road development and repair had been reduced. As concentration and centralization advanced, increases in total distance from field to mill and increased production made railroads more important. Because of its production and trade history, Cuba had embarked on extensive railroad projects to connect mills, ports, and cities even before the development of the rail system in Spain.

Now these required expansion. Cuba's system, begun in 1837, was the first in Latin America. It was financed not by newly-established banks or branches but by joint-stock companies created specifically for the purpose of rail construction and operation. The promoters were hacendados and businessmen of the wealthiest districts of Cuba. Their priority was on linking sugar production to ports, not on establishing a national public rail system to connect the major townships and government centers as the Spanish government desired.[5]

In addition to the rails connecting mills to ports, another innovation was imported during the late 1870s and 1880s that could improve field to mill transport, the portable railroad. To move more cane from larger plantations to a central mill required better methods than mules and oxen pulling wooden carts. Moreover, from 1862 to 1881, the number of horses, mules, and donkeys had been reduced from 330,921 to 205,459 and the largest percentage of these were in the western provinces.[6] In declining supply, the cost for mules or oxen averaged $200-$400 in initial capital outlay. Using them on unrepaired roads and in damaged fields tended to increase the need for replacement.

As an alternative, Cuba began to experiment with the portable railroads. These cars used a locomotive powered either by steam or animal traction. The rail lines themselves could be fixed or moved from place to place through the sugar fields, serving each area cut. Several systems were introduced in Cuba from France and the United States, where they had been used in coal mining: Pioneer trains, Corbin, Bass, Rodriguez, Pascual, Decauville, and Allison.[7]

These systems, though desirable, were not widely adopted. Of the 1,190 mills in existence in 1877, only 10 percent acquired the portable railroad. Of these 118 mills, 47 percent were in the Havana and Matanzas region.[8] In the provinces where distance between fields and mills was greater, the portatíles were more important. The difficulties in obtaining them were appropriateness to terrain, cost and available credit.

Traditional rail systems continued in use and to a minor degree expanded. After a brief hiatus in public and private rail construction during the time of the Ten Years War, building resumed again in the 1880s. This was in part a function of dramatically decreasing rail costs. Previously, equipment was imported from Britain and Germany, but in the 1870s and 1880s, the United States developed a new steel mill process. This technology and proximity helped it become a leading exporter of lower-cost rail equipment to Cuba.

Through the 1883 adoption of a new railway law and repeal of sections of the 1868 and 1877 rail acts, Spain attempted to facilitate the expansion of lines in Cuba. The 1883 law clarified the application of the Spanish Railroad Law to Cuba and demonstrated government commitment to assisting the development of new lines in the eastern part of the island.[9]

Under the terms of the Railroad Law, the state assumed responsibility for establishing the carrying costs on the lines and endeavored to make them uniform throughout the island. The state also extended involvement in promoting construction of lines through expanded subsidy programs, and in offering ninety-nine year concessions for proposed public lines. To bid on these concessions, companies or individuals were required to bond 1 percent of the capital subsidy designated for the auctioned line. Once the bid was awarded, this percentage of "good faith" money increased to 3 percent. The guarantee was returned to the investor when construction inspectors validated that twice the amount of good faith capital had been invested in the work.[10]

The proposed subsidy required little in initial capital outlay by the government. The investor's earnings from rail business were credited to his Treasury account, from which he received 50 percent of the gross proceeds. Once the line began to show a profit over four consecutive years, subsidies were ended and the amount of the government subsidy had to be returned (without interest charges, however). The government acquired the capital for subsidizing construction by offering a guaranteed 8 percent interest rate on investments designated for rail construction. This assured return on investment, the government no doubt hoped, would encourage capital participation because it represented a rate competitive with banks.[11]

Government involvement in the construction of lines also insured government management/intervention in the operation of the lines, including fee charges. Private lines financed without government subsidy were less controlled, but investors had to obtain concessions from the government and bond their bids on lines offered at auctions.

The lines the government earmarked for construction in 1883 included:[12]

> Sancti Spíritus to Santa Clara
> Sancti Spíritus to San Luís de la Enramada by way of Ciego de Avila, Puerto Príncipe, Victoria de las Tunas, Canto Embarcadero, Bayamo and Jiguaní
> Victoria de las Tunas to San Luís de Enramada by way of Holguin
> Bayamo to Manzanillo
> Puerto Príncipe to Santa Cruz del Sur
> San Miguel de Nuevitas to Zanjón
> Holguin to Gibara by way of Auras
> Canoa to the Bay of Nipe
> El Cristo to Guaso
> Santa Catalina de Guaso to Sagua de Tanamo

The Spanish government resisted the development of railways accommodated entirely to sugar market needs. It also sought to encourage linkages between some of the main cities and mills of the east. This process of incorporation of the eastern provinces into a transportation network had been neglected by private capital, but it was not accomplished by government subsidy either. With the exception of the line from Holguin to Gibara, none of these lines were constructed during the Spanish colonial period.

Another authorization for rail lines was issued in 1885.[13] None of these lines were constructed by the end of the century. They included:

> Santa Clara to Ciego de Avila by way of San Andres
> Ciego de Avila to Puerto Príncipe
> Santa Cruz del Sur to Puerto Príncipe (again)
> Puerto Príncipe to Victoria de las Tunas
> Bayamo to Manzanillo (again)
> El Cristo to Santa Catalina

The major mills already operating in the east--Esperanza, Romelio, Santa Cecilia, Soledad, and Santa Ana--built private rail lines to ports. The mills established from 1869 to 1899, including Unión (near Santiago de Cuba), Isabel, and Dos Amigos (near Manzanillo), and Senado, Francisco, and Lugareño (Puerto Príncipe) had ready access to rail lines

constructed before, or found it expedient to use roads and nearby ports.[14]

Despite government attempts to promote rail development, only about 300 miles of rails were constructed after the 1880s, and most of this was accomplished by private investment rather than government subsidy. The limited rail development reflected an additional credit problem related to the sugar industry. The new lines served sugar almost exclusively, and all companies created for the development of these lines required large capital outlays. A Rogers engine, imported from New York, for example, cost $8,269.40. The tariff was set at $1,980.[15]

In addition to the ties, cars, stakes, switching stations, tools, and other equipment that was part of rail system costs, labor was also a changing cost factor. Early rails were built by contract labor for the most part, rather than by slaves. To build the Güines Railroad, contract workers from the Canaries and Ireland had been imported under an army law. This afforded government control over construction, and failure to show up for work was treated as desertion.[16] Under post-abolition conditions, "free" rather than contract labor was the option available. When greater emphasis was placed on sugar production, both labor availability and cost became problems.

Rail construction was not the only industry affected by new labor relations. In all industries, employers were forced to adapt to wage labor. In choosing how best to spend his liquid assets, the new master/employer focused on costs he found most capable of control. Many devised strategies designed to insure lower labor costs. For example, by issuing paper scrip, tokens, and depreciated paper money instead of coins, employers reduced reliance on scarce metal. (See Chapter Five

on currency problems.) These tokens were used to purchase goods or rations in company stores, which developed as the patrocinado system declined and employers took less responsibility for providing subsistence as part of the salary. Use of the company store system varied according to the size of the estate, location, and number of workers employed.

Control over wages was a continuing issue in post-abolition Cuba. Wage rates were also influenced by type of work performed and even race. Former estate slaves, for example, had new options as free laborers. They could stay on their plantation without changing responsibilities, working as wage labor and either accepting payment in maintenance, coin or scrip, according to the decision of the plantation owner. If other plantations were accessible and offered better conditions, they might move. Joining the outgrowth of the contract labor system, the cuadrillas, or work gangs, organized labor to specific tasks or times. Part of the laborer's wages were in food, and wages were reduced by the fees of the contracting intermediaries.

If he chose to work as a sugar grower, it was likely to be under the colonia system, where his lack of resources likened him to a tenant farmer rather than a wage earner. Where open land was more available, in the east or mountain regions, slaves could attempt to establish their own farming.[17] But to purchase materials they needed either credit or capital. Since credit was seldom extended them, they maximized their options by working as part-time or seasonal labor and part-time cultivators.[18] As such, they did not enter the wage labor force completely, and depending on the skill levels needed in the area, they limited participation in the wage labor system. Movement to cities or

other agricultural production in other provinces, on the other hand was limited either by the scarcity of employment opportunities or competition for land and positions.

Rates could vary enormously, according to place, season, and supply and demand, but did not rise appreciably after abolition.[19] One method of depressing wages was to increase the unskilled labor force. Planters therefore urged increases in white immigration to Cuba. The emphasis on white immigration was an effort to decrease the dependence on freed slaves. Spain supported this idea and, as a result, approximately 7,000 Spaniards annually immigrated to Cuba between 1882 and 1894.[20] Between 1889 and 1894 alone, the Spaniards taking up residence in Cuba numbered approximately 58,700. The net effect of population changes on wage levels has yet to be explored.

In the dominant sugar economy, job choices for all were reduced and limited labor alternatives had an effect on wage rates. Whatever the wage rate, the transition from slave to wage labor had a profound impact on the capital needs of the sugar plantation growers and refiners. Limits on credit availability and capital in a crisis-ridden economy contributed to a greater tendency for employers to keep labor costs low. This was especially significant for the seasonal field worker, whose labor could not be replaced by machine.

All sugar industry capital needs were constantly increasing from 1878 to 1895. In virtually every aspect of the enterprise--labor, equipment, and transport--costs were rising faster than the price of sugar. The planter and mill owner, particularly outside the Havana/Matanzas area, required more economic assistance than ever before.

In other areas with the potential for enhancing diversified production, capital needs also changed during the inter-war years. In the 1862 to 1877 period, the number of tobacco vegas had declined dramatically: from 11,541 to 4,515. They recuperated somewhat after the war, increasing to 9,715 in 1881, and then remained fairly stationary.[21] The production of Cuban cigars and cigarettes was exploited principally by Spanish immigrants, who established factories in Havana. Transport of leaf from the major growing regions of Pinar del Río required improvements in rails. The other center of tobacco vegas had been Santiago de Cuba, but the Ten Years War had brought vast destruction to fields there. Revitalization of the production was inhibited by lack of credit systems responding to the needs for initial seed capital outlays, as well as cultivation costs. In addition, lack of factory production, and the cost of transport reduced the importance and future of the industry there.

United States tobacco growers successfully negotiated control over Cuban cigar and cigarette imports, but markets were also available both in Cuba and Europe. Capital for establishing these businesses was imported, but factories required local credit sources for operating costs, expansion, packaging, and transport. Spanish policies did little to assist the industry, however, and the results were shifts in exports as tariff agreements were negotiated. Instability in the industry led to periodic labor strikes and lack of expansion. Leaf exports came to exceed finished product exports, and factory workers and factories were transferred to the United States.

Like tobacco estates, coffee fincas also declined from 1881 to 1894, especially in the eastern areas assaulted by the Ten Years War.

This was merely another step in the downward trend that had been sealed by the tariff wars with the United States, competition with Brazilian growers, and the hurricane destruction of the 1830s and 1850s.[22] Capital investment continued to drop: from 25,000 pesos to 3,200 pesos between 1865 and 1884.[23] Profit margins on coffee production compared unfavorably with sugar. On large estates, initial capital outlays in labor were lower because cultivation required three to four years, but labor and transport expenses later matched costs of production in sugar, without commensurate returns. While production of coffee, as a labor-intensive rather than land-intensive industry, might have provided the opportunity for free labor employment, internal consumption, and a share of the international market, too many circumstances mitigated against the possibility. In addition, sugar production diverted both land, labor, and capital from these ventures. Instead, coffee had to be imported.

Other agricultural crops suffered similar declines as the result of the dramatic emphasis on sugar production in a recovering economy. As a consequence, laborers free to enter new forms of economic enterprise found themselves without these alternatives. This lack of diversification restricted changes in the development of new productive forces and the division of labor. One other resource, mining, that might have been developed and could have contributed to a measure of growth and change in Cuba remained underdeveloped for similar reasons.

The mining industry required higher capital investment than agriculture, and was not adequately exploited during this period. The largest deposits of ores clustered in Santiago province, where the potential for iron, manganese, copper, gold and zinc involved 287 mines

covering 13,243 hectares of the province.[24] However, instead of Cubans exploiting these materials for industrial development, North American businesses were actively interested in purchasing government-issued mining rights. The mining industry became limited to extraction and export of raw materials to the United States for use by U. S. industry. Even so, investors found obstacles to development. A Boston concern, the Empire Manganese Company, opened manganese mines in 1887 only to go into liquidation in 1890. The problem was said to be the excessive costs of labor, packing, and transport in comparison to market price.[25]

Iron properties were controlled almost exclusively by North American firms or entreprenuers, including the Juragua Iron Company, the Spanish-American Mining Company, and the Sigua Iron Company. In mines operated and capitalized by North Americans, rail materials and technology were imported. In comparison, most of the mines owned by Cubans and Spaniards remained unexploited were offered for sale.[26]

Mining of copper, coal, and other metals required capital outlays prohibitive to most Cubans. Despite the internal needs related to the expansion of rails, fuel requirements, and production potentials, most recovery of these resources also was capitalized by United States investors and for United States markets. Lack of access to investment capital was one of the reasons for this phenomenon.

Capital needs, then, were significant in the Cuban economy. But agencies for providing capital were inadequate for these needs. These systems available for credit and capital investment in Cuba can be differentiated into three catagories: stock investment banks, merchant or commission bankers, and government banks.[27] Each of these financial intermediaries performed different functions in the Cuban economy, and

emerged in response to particular capital needs of the government or private sector. In many cases, they performed their functions well, providing investment capital for development of the sugar industry and the rails, facilitating the transfer of goods from the island to the export markets, and negotiating availablility of other goods and services needed by producers and consumers. All faced serious crises during the period under review, and many were unable to perform their functions effectively. Some proved unable to survive.

The investment banks and merchant/commission bankers deserve further scrutiny here. Investment banks acquired capital from the sale of shares and from deposits. They loaned capital for investment in particular, narrowly defined projects or for general agricultural or industrial purposes. Organizations established for a specific purpose focused on farm credit, shipping insurance, mortgages, or industrial development. Others facilitated international trade. All were required to gain approval for their charters from the Spanish government and some briefly obtained the right to issue notes in negotiating business transactions. A large number of these sociedades de crédito applied for charters between the 1850s and 1860s, as the Spanish government began its promotion of banking and industry in Spain. A partial list is provided in Table 2. In addition to these banks, a few other other banks were established between 1881 and 1890, such as the Banco Agricola Managuayano.[28]

Perhaps the best known of these institutions is the Caja de Ahorros Descuentos y Depósitos, or Savings Bank. Reported to be the only true savings bank in Cuba, this bank was created in 1841 in Havana, under the directorship of Carlos Nuñez del Castillo. Nuñez was a member of the

Table 2

INVESTMENT BANKS

Year	Sociedad
1841	Caja de Ahorros Descuentos y Depósitos
1857	Sociedad de Crédito y Fomento y Seguro de Cuba
	Sociedad de Crédito Industrial y Fomento de Sagua la Grande
	Sociedad de Crédito Mercantil y Industrial de Cardenas
	Banco Agrícola
	Banco Agrícola y Mercantil de Remedios
	Banco de Cienfuegos
	Sociedad de Crédito Mercantil y Industrial de Pinar del Río
	Banco de Güines
	Banco de Hacendados
	Banco Industrial Pecuario
	Banco de Garantia y Crédito
	Banco de Guanajuay Agrícola y de Fomento
	Banco Mercantil de la Habana
	Banco Mecánico Artístico y Industrial
	Banco Mercantil de Santiago de Cuba
	Banco de Pinar del Río
	Banco de Propietarios de Fincas Urbanas
	Banco de Santiago de Cuba
	Banco de Seguros Maritimos
1858	Banco y Almacenes de Santa Catalina
	Banco de San Carlos
	Sociedad de Crédito Mobilario y Fomento Cubano
	Sociedad de Crédito Hipotecario
1861	Banco Central de Liquidación
	Banco de San Carlos de Matanzas
	Banco Industrial de La Habana
	Crédito Agrícola Mercantil Cubano (merged with La Alianza)
	Sociedad de Crédito Industrial
1863	Sociedad de Crédito Mercantil y Industrial de Cárdenas
1864	Banco Mercantil Agrícola de Santiago de Cuba

Sources: Archivos Nacional de Cuba, Gobierno Superior Civil, Legajos 1582 through 1588, 1590, 1591, 1607, 1608, and Gobierno General, Legajos 83 and 101.

Havana Club, the center of the Cuban annexationist movement. He remained with the bank until he was succeeded by Pedro Mendive in 1855.[29] A branch of the Caja de Ahorros was established in Santiago de Cuba in 1862, but its fate is unclear.[30] Like other banks, the Savings Bank had shares quoted on the stock exchange and it announced activities in the Gaceta de La Habana.

By 1880, its capital reserve and dividends were quoted at $500,000 gold. This compared to the equivalent of $8 million for the Banco Español de La Habana and $1.6 million for the Banco Industrial.[31] Each share in the bank had a nominal value of $100, compared to $500 for the other two banks.

In the latter part of 1883, Cuba experienced a financial panic. Sugar prices dropped from a prior rate of between $65 and $70 per unit to $30 per unit, while production costs averaged $40 per unit.[32] At the same time, metal currency circulating in Cuba was reduced by five million and paper money issues fluctuated enormously.[33] The principal creditors of many banks in the sugar industry were unable to repay outstanding loans. As depositors grew uneasy about their banks' financial solvency, they made panic runs on several banks. Shares in the Caja de Ahorros dropped 60 percent. Unable to face the impending disaster, the bank president committed suicide. The bank suspended further withdrawals on March 4, 1884, until its shareholders could choose a new director and assess the situation.

A review of the company's activities showed that the bank had failed to collect on overdue notes dating back as far as 1856. But about half of the $3.7 million outstanding debt (payable in gold and paper) was for 1883 alone.[34] The loss suffered by depositors, estimated

to be 14,000 men and women, is not known, but the bank soon reorganized. Its shares were quoted on the Bolsa again in 1885.[35] While survival after this time is uncertain, clearly it never regained its previous reputation.[36]

Other banks also suffered in the 1883-1884 crisis: the Banco Industrial, with capital quoted at $1.6 million and share values at $500 in 1880; and the Banco y Almacenes de Santa Catalina, with $1 million in assets, and $500 shares.[37] Santa Catalina failed in 1883 and the Banco Industrial was reported to have gone into liquidation in 1887.[38] The Banco Industrial reorganized its statutes and received approval to continue for another fifty years, but could not solve its problems effectively enough to survive.[39]

Another bank, the Bank of Commerce, had unusual success in this otherwise catastrophic business. References to this bank suggest that it originated sometime before 1879 as the "Compañía de Almacenes de Regla y Banco del Comercio."[40] At that time, this warehouse and banking operation listed its investments as the Bahia railroad, slaves, and _asiáticos_. Its warehouses stored sugar, Peruvian _guano_, and other goods quoted in 1879 at more than $195,000 in gold.[41] Its shares in 1879 were quoted at $500 each.[42] Capital was valued at $3 million gold, and its safe held $821,836 in 1880.[43] By 1881, this amount on deposit increased to $1,167,151 in gold (and a slight increase in paper money). The same year, it carried a second mortgage on the railroad.[44] In 1883-1884, the Bank of Commerce suffered panic runs along with other banks, but survived.[45]

Shortly before 1890, the Bank reorganized as the Banco de Comercio y Ferrocarriles imidos de La Habana, with control over the Regla

warehouses and United Railways Company that covered much of Havana. In 1893 it faced other economic difficulties and suspended payments due to large advances to sugar speculators.[46] In the end, even the diversification strategy of the Bank could not insure its survival beyond the war years. In 1898, the railways, land, and warehouses of the company were acquired by United Railways of the Havana and Regla Warehouses Ltd., a London firm.[47] The Bank itself was acquired by London investors shortly thereafter.

The stock investment bank system provided an important means of accumulating and mobilizing capital in the Cuban economy before the Ten Years War. But most of the banks that organized during and after the 1850s did not survive the 1883-1884 crisis. The Spanish government was eager to approve charters for these banks, but clearly did not provide assurance that adequate procedural guidelines or practices would improve their chances of success.

As financial institutions, the Cuban investment banks did provide entrepreneurial talent and guidance, and some supplied part of the money supply through note issues. To some extent, they also acted as financial intermediaries between savers and investors. However, those that organized for specific purposes (such as the Banco de Propietarios de Fincas Urbanas and the Banco de Seguros Maritimos) drew investors and depositors from narrow populations and could not have contributed to widespread participation in banking. The concept of depositing surplus capital in a bank solely for the purpose of accruing interest seems not to have been part of Cuban economic behavior. Capital was to be held by the bank either as a means of safe-keeping for later withdrawal (to be

used as operating capital) or it was invested in a bank through the purchase of shares for the purpose of making profit on the investment.

Effectiveness in accumulating, mobilizing, and utilizing capital through these intermediaries was limited also because of population access and note-issue privileges. Whether size and lack of competition were also contributing factors cannot be determined at this point. It would appear, however, that unsound banking practices, such as those demonstrated in the Caja de Ahorros failure, had significant implications. That most of these banks did not survive to 1895 may be indicative not only of internal failures in the banks' structures and function, but of the severe crisis in the Cuban economy. The basic conditions necessary for success--government ability to assure minimal conditions of both financial and political order--were not being met from 1878 to 1895. Moreover, emphasis on serving the needs of the sugar industry, with its difficulties involving world price, foreign competition, abolition, mechanization, concentration, and recovery from the Ten Years War served to seal the fate of many investment banks.

Although merchant bankers and commission merchants are not, strictly speaking, part of a clearly defined "banking system," they played a significant role in the Cuban credit system. As financial intermediaries, these agents and businessmen assumed the banking credit function. In the absence of other banking systems, merchant bankers and commission merchants were in many places and many instances the only financial intermediaries.

The term "merchant banker" as it applies to Cuba during this period can only be understood by examining the role. Merchant bankers could be

individuals, partnerships, or companies. Although they were required to register as businesses, they were seldom stock companies, nor were they required to establish charters.

Merchant bankers included businessmen from the United States, Denmark, Germany, and France, as well as Spaniards and Cubans. Edwin Atkins recalled that plantations destroyed in Trinidad during the Ten Years War were taken over by merchant bankers who financed the crop: Eaton, Safford and Fox of the United States, Guillermo Schmidt of Denmark, and Fritze and Company and Thode and Meyer of Germany.[48] This meant the merchant banker actually obtained control over property and could effect sales of estates to recover debts. This was especially significant in the provinces of Santiago and Santa Clara, where so many family-owned sugar estates were destroyed and sold in this period. Merchant bankers reaped the profit from these losses.

The merchant bankers performed two main functions in the economy. Primarily, they sold goods imported to Cuba, such as flour and other foodstuffs, drugs, hardware, small equipment, or dry goods. What made them bankers was that they often sold products on credit. That credit was most likely to be extended to those with the best ability to pay: the sugar planter and/or the mill owner, or the coffee grower or or tobacco farm owner. Credit for the purchase of lumber to box clayed sugars or jerked beef to feed labor, for example, was extended to the plantation/mill owner until his crop was sold and payment received.

Credit also carried an obligation for the service and the transaction would usually be effected through the use of a promissory note which had a direct or indirect interest charge. This note, in turn, might be sold to one of the commission merchants or commission

bankers who purchased and sold promissory notes at a profit. The main role of the commission merchants however, was the sale of exports. These brokers acted as agents or intermediaries between the foreign buyer and native seller. They advanced loans on a long or short-term basis, and, as discussed in Chapter Five, provided other goods and services to the planter.

These two types of creditors were most prevalent in Havana, the major business port of the island. But merchant bankers were also established in Cienfuegos, Gibara, Guantánamo, Matanzas, Manzanillo, Nuevitas, Pinar del Río, Sagua la Grande, Sancti Spíritus, Santa Clara, Santiago de Cuba and Trinidad. Commission merchants operated in addition to Havana, in Baracoa, Caibarién, Cárdenas, Matanzas, Santiago de Cuba, and Sagua la Grande. From west to east, the commission and merchant bankers served the internal and external trade needs in the Cuban economy.[49]

By examining their operations by province, a better picture emerges of the role and significance of these agents in the banking system. In Pinar del Río province, business centered around the city of Pinar del Río. The "banker" there was Suárez, Girbal and Company, a firm which also sold groceries, provisions, and sewing machines. This was a diversified merchant who extended credit, possibly for other purchases as well. In addition to its rich tobacco plantations, the province also had seventy sugar plantations that required access to credit. It is unlikely that Suárez, Girbal, and Company could supply all the credit needed, however. Undoubtedly with the rail shipments of tobacco and sugar from Pinar del Río city to Havana travelled *hacendados* arranging credit through the many agents in Havana.

In Havana province, in addition to investment and government banks, a large number of merchant bankers and commission merchants arranged for credit and sales of goods in the city of Havana and at the ports. Cigars, for example, were manufactured and exported by commission merchants H. Upmann and Company, Calvo and Company, J. A. Bances, and William Looft and Company. Exports of tobacco leaf and cigars were handled by commission merchants like Calixto López and Company, J. Balcells and Company, Julio Ordet, C. E. Beck, Bosselman and Schroeder, Miguel Mayoz, and Neuman Neuhaus and Company. Bankers and commission merchants such as J. Balcells and Company, Romero and Company, L. Ruiz, Lawton Brothers, N. Gelats, Mont'ros Bridat, Hidalgo, C. R. Wickes, B. Piñon, Loychate Cordes, and Calvo and Company also dealt with a whole range of imports and exports, including flour, provisions, coal, and sugar.

More agents covered Havana than any other part of the island, but few of these businesses seem to have operated or had offices in other cities in the province. This prevented a valuable link between other townships and Havana and also served to impede efficient transactions outside the main port. The rail system linking the major cities to Havana was therefore an important part of the communication and transport network. Not only sugar travelled by rail to Havana, but also creditors.

Matanzas province, with 434 sugar plantations, was the site of a great deal of sugar activity. In the city of Matanzas the firm of Bea Bellido and Company provided banking and commission services and was involved in exports of sugar, molasses, and coal, and in making ice and importing hardware.[50] Banker/commission merchants Galíndez and Aldama

and Company were also diversified: they handled lumber, clay, coal, and sugar and molasses. Bankers Brinkerhoff and Company were sugar and molasses exporters, while Heidegger and Company and Dubois Zanetti dealt in various imports.

In the city of Cárdenas, J. Balcells and Company from Havana apparently operated a branch office. Bankers/commission merchants Mayoz Tellado and Company were also importers, Pedmonte and Company dealt in groceries and provisions. Other agents handled general business, including sugar. Since Cárdenas was the only real center of factory production, it reasonably included more agents than any other city in the province, even though its population was smaller than Matanzas. (See Table 3 for population data.)

More populated than Matanzas Province, the province of Santa Clara included 332 sugar plantations. Its rail connections reflected the importance of the sugar business in nearly every corner of the province. In this environment, credit intermediaries performed a wide variety of functions. In Santa Clara township, at the center of the province, the "banker" was C. A. García and Company, who also dealt in lumber, hardware, and crockery. In another inland city, Sancti Spíritus, the only credit agent was Agusto Gruppe. The largest port town, Cienfuegos, on the other hand, had thirteen merchant bankers. Some of them, like García and Company and Hartasanchez Cardon and Company, were suppliers of groceries and provisions (the latter also dealt in tobacco leaf) or were general importers (Castano and Intriago).

In Trinidad, merchant bankers predominated, including like Thode Meyer and Company, Guillermo Schmidt and Company, and Vilá and Portella, who sold groceries and provisions. The important sugar township of Sagua

Table 3

POPULATIONS OF CUBA BY SEX, COLOR, AND PROVINCE, 1887 AND 1899

Province	Year	Color	Male	Female	Total
HAVANA					
	1887				
		White	188,269	147,513	335,782
		Color	55,697	60,449	116,146
					451,928
	1899				
		White	171,000	141,590	312,590
		Color	50,990	61,224	112,214
					424,804

Population Major Townships (1887)

Havana - 250,000
Alquizar - 8,700
Batabanó - 8,500
Bejucal - 9,000

Guanabacoa - 25,000
Guara - 14,000
Güines - 12,500
San Antonio de los Banos - 11,730

Province	Year	Color	Male	Female	Total
MATANZAS					
	1887				
		White	79,362	62,678	142,140
		Color	69,514	48,024	117,538
					259,578
	1899				
		White	62,174	55,743	117,917
		Color	41,552	42,975	84,444
					202,444

Population Major Townships (1887)

Matanzas - 90,000
Bolondron - 11,816
Colón - 17,000
Coran Nuevo - 13,000

Cárdenas - 23,680
Managua - 31,410
San Antonio de Cabezas - 10,200

Sources: Clark, Commercial Cuba, based on 1887 census data and Kenneth Kiple, Blacks in Colonial Cuba, 1774-1899 (Gainesville: University of Florida, 1976), based on the 1887 census and the War Department's 1899 census.

Table 3 Continued

Province	Year	Color	Male	Female	Total
SANTA CLARA					
	1887				
		White	134,412	110,685	245,097
		Color	59,084	49,941	109,025
					354,122
	1899				
		White	132,107	112,661	244,768
		Color	56,950	54,818	111,768
					356,536

Population Major Townships (1887)

Cienfuegos - 41,000
Ranchuelo - 10,733
Sagua la Grande - 14,000
Sancti Spíritus - 17,000
Santa Clara - 20,000
Trinidad - 18,000

Province	Year	Color	Male	Female	Total
PUERTO PRÍNCIPE					
	1887				
		White	29,473	25,108	54,581
		Color	6,370	6,838	13,208
					67,789
	1899				
		White	36,074	34,313	70,387
		Color	8,825	9,022	17,847
					88,234

Population Major Townships (1887)

Puerto Príncipe - 40,000
Ciego de Avila - 7,000
Nuevitas - 7,000
Morón - 8,000

Table 3 Continued

Province	Year	Color	Male	Female	Total
PINAR DEL RÍO					
	1887				
		White	91,627	75,051	166,678
		Color	31,202	28,011	59,213
					225,891
	1899				
		White	68,020	57,605	125,625
		Color	23,668	23,771	47,439
					173,064

Population Major Townships (1887)

Artemisa - 9300
Bahía Honda - 8500
Consolación del Sur - 16,000
Guanajuay - 9500
Pinar del Río - 8000
San Cristobal - 16,610
San Luís - 9,125
Vinales - 11,727

Province	Year	Color	Male	Female	Total
SANTIAGO DE CUBA					
	1887				
		White	84,044	74,667	158,711
		Color	53,546	60,122	113,668
					272,379
	1899				
		White	93,738	87,372	181,110
		Color	70,498	76,498	146,605
					327,715

Population Major Townships (1887)

Santiago de Cuba - 40,000
Baracoa - 18,000
Bayamo - 18,800
Gibara - 27,600
Guantánamo - 9000
Manzanillo - 26,000

la Grande had a population of 14,000 and in addition to a branch of the Banco de Español de la Habana ten banker/commission merchants who also dealt in groceries and provisions (Corrales Brothers, Millares, Radelat and Company, Arenas Puente and Company) and drugs (Prieto and Company). All were also import/exporters.

In contrast, with only a few sugar plantations and the lowest population of all the provinces, few banking activities would seem necessary in Puerto Príncipe. Except for one bank offering short-term loans, the province had limited banking facilities. Puerto Príncipe was a township of 40,000 at the end of a railroad line that stretched to Nuevitas (population 7,000), where the only merchant bankers available to meet local needs were Vicente Rodríguez and Company, Adan Bernabe Sánchez, and Janer Tomeu and Company. The United States commercial agent at Nuevitas reported in 1894 that all financial arrangements for U. S. imports and exports were "effected through Havana drafts on American banks."[51] No other credit facilities operated in the other end of the province: Morón, Ciego de Avila, or Las Piedras, which were connected by rail to join the north and south of the province.

Because of distance, Santiago de Cuba province had to reduce reliance on Havana agents and operate as self-sufficiently as possible. It had ninety-three sugar plantations operating between 1878 and 1895 and rich ore deposits. Several large townships were scattered from the ports of Baracoa, Gibara, Santiago de Cuba, Manzanillo, and the inland city of Bayamo.

Here a few banker/commission merchants operated in more than one city: the sugar firms of Brooks and Company and J. Bueno and Company (who also dealt in mahogany and cedar) and Brauet and Company (who also

imported hardware) operated in both Santiago de Cuba and Guantánamo. In Santiago de Cuba, banker/commission merchants were involved in tobacco (Hill and Casas, Arturo Inglada, Mas and Company) or import of flour and export of wood (Schumann and Company, Ros and Company). At the far end of the island, the township of Baracoa (population 18,000) had eight commission merchants, several of whom dealt in fruit (José Tur, José Vidaillet, and H. Dumois). Manzanillo, in the east (population 26,000), had at least eleven merchant bankers, some of whom were general importers. Gibara (population 27,600) on the other hand, had only three merchant bankers: Longoria and Company, Beola and Company, and Manuel Silva. This discrepancy probably reflects the importance of mining interests around the Manzanillo and Bayamo area.

Merchant bankers or commission bankers bore the largest responsibility for credit outside the city of Havana. Investment banks chartered in the 1850s and 1860s in Santiago, Güines, Cienfuegos, Remedios, Cárdenas, Sagua la Grande and Pinar del Río seem not to have survived to 1895. Instead, credit needs had to met by available merchant/commission bankers of various nationalities who could arrange for transfer of money and goods in lieu of other intermediaries, since limited needs were met by the Bank of Spain of Cuba.

While there is no preponderence of North American names in reference to merchant bankers or commision merchants, one should not assume an absence of foreign capital or agents in the Cuban economy. Some of these agents would prove to be naturalized American citizens with access to U. S. capital. Moreover, as United States sugar markets grew, North American sugar refiners began to carry out the business of credit intermediaries through their own commission agents.[52]

The importance of merchant bankers in the Cuban credit system extended beyond private needs. They also provided credit for the Spanish military. During the 1883-1884 crises, the government was unable to meet the payroll for the Spanish soldiers in Cuba for six months. Nor could it supply food, clothing, or equipment. Soldiers attempted to make arrangements instead with merchant bankers. Pay receipts issued by the government (vouchers) were refused by these bankers who were afraid the debts would simply be converted into the unredeemable public debt. The soldiers chose the alternative of signing promissory notes to private money-lenders (usurers) and staging a revolt. Fortunately, while the government negotiated a solution with the Banco Hispano-Colonial and the Bank of Spain of Cuba, a few merchants generously agreed to extend credit for a few days.[53]

This incident that forced negotiation between the banks and the government would prove to be a small window to the panorama of banking and credit problems in Cuba. To fully understand the issue, it is necessary to look first at the nature and activities of government banks between 1878 and 1895.

Notes

1. Goizueta-Mimó, "Effects of Sugar Monoculture," 115.

2. Louis A. Pérez,Jr., Cuba Between Empires, 1878-1902, 18, and Julio LeRiverend. "Raices del 24 febrero: la economía y la sociedad cubana de 1878 a 1895," Cuba Socialísta 8 (February 1965): 1-17. There is, inevitably, some inconsistency in the figures reported. LeRiverend, for example, contends 74 percent of the Sancti Spíritus mills were gone after 1878. He also says 99 percent of Camaguey's 100 mills dissolved and more than 2,850 fincas were destroyed or abandoned.

3. For more analysis of this process, see Hernán Venegas Delgado, "Acerca del proceso de concentración y centralización de la industria azucarera en la región remediana a fines del siglo XIX," Islas 73 (December 1982): 63-121, and Fe Iglesias, "Azúcar y crédito durante la segunda mitad del siglo XIX en Cuba," Santiago 52 (December 1983): 119-144. Under the colono system, milling and cane growing were separated. Farm owners and renters arranged to provide their cane to a mill for grinding and receive back a portion for sale. The expansion of the colonato coincided with abolition. See Scott, Slave Emancipation in Cuba, 208-212.

4. Fe Iglesias, "Capitalism in Cuban Sugar Production," in Manuel Moreno Fraginals, Frank Moya Pons, and Stanley Engerman, Editors, Between Slavery and Free Labor: The Spanish-Speaking Caribbean in the Nineteenth Century (Baltimore: The Johns Hopkins University Press, 1985), 54-75. Some of the machinery imported included double-pressure grinders, multiple effect, double-bottomed defecators, large kettles, centrifuges, filters, multiple-control mechanisms, hydraulic regulators, defiberators (70). See also Report on the Commercial and Industrial Condition of Cuba, Appendix, 17-18 and 97.

5. Jacobo Pezuela, Diccionario geográfico, estadístico, and histórico de la isla de Cuba, 3 Vols. (Madrid: Establecimiento de Mellado, 1863), II, 330-361 traced the history of the railroads to 1862. The line originally financed by the Spanish government (through bonds floated on European markets) under the Junto de Fomento ran from Havana to Güines. In 1842, the government sold the right to that line to the Sociedad Anomina Compañía de Caminos de Hierro de La Habana. See Patria Cok Márquez "La introduccion de los ferrocarriles portatíles en la industria azucarera, 1870-1880," Santiago 41 (March 1981): 137-147. Thereafter the Spanish government approved the organization of joint-stock companies to establish new lines. From 1858 to 1880, rail regulations governing Spain were extended to Cuba, until the railroad law specifically addressed Cuban regulations. Translation of the Law of

Railroads for the Island of Cuba, (Washington: Government Printing Office, 1895). (Hereinafter cited as the Law of Railroads.) According to Pezuela and to Military Governor Leonard Wood, the new lines constructed were financed by European loans, bonds, and private investors. Brigadier General Leonard Wood, Report of Brigadier General Leonard Wood for the Period January 1 to May 20, 1902, 6 Vols. (Washington: Government Printing Office, 1902), II, 123.

6. Study on Cuba, 69-71. The numbers more than tripled again to 1892, then began a dramatic decline to 1899.

7. Allison Manufacturing was a Pennsylvania rail supplier, and urged the United States State Department to establish duty-free exports rail equipment to Cuba in its 1885 treaty negotiations. The Havana Consul also suggested the U.S. negotiate for extensive railroad franchises, since they would support the sugar which the U.S. was to consume. Williams to Porter, December 3, 1885, RG 84/Havana.

8. Cok Márquez, "La introducción de los ferrocarriles portatíles," 142.

9. Law of Railroads, 59.

10. Law of Railroads, 54-57. This method of assuring return on investment seemed to suggest the possibility for a great deal of bribery and corruption.

11. Law of Railroads, 57.

12. Law of Railroads, 57-58. Rail transport offered enormous opportunities for facilitating subversion during this period. Two naturalized North American citizens, Rafael Fernández de Velasco and Juan Batista Piedra, were locomotive engineers on the Matanzas Railroad. They were arrested in 1877 and 1880 respectively for "clandestine transport of arms to Cuban insurgents." See Hall to Hay, March 2, 1884, RG 84/Havana.

13. Colección Legislativa, Volume 133, Ultramar, August 22, 1885, 675. In addition, the government issued a decree in 1883 establishing the highway plan for eastern Cuba, which closely matched the proposed rail routes. It limited the highway plan to "only the most necessary and those that have a most direct interest for the State . . . in accord with the war business, especially in the interest of defense of the territory, communication plans and placement of order."

14. Goizueta-Mimó, "Effects of Sugar Monoculture," 188-189.

15. Report on the Commercial and Industrial Condition of Cuba, Appendix, 97.

16. Manuel Moreno Fraginals, The Sugarmill: The Socioeconomic Complex of Sugar in Cuba, 1760-1860, trans. Cedric Belfrage (New York: Monthly Review Press, 1971), 135.

17. Rebecca Scott, Slave Emancipation in Cuba, 251-254. Some of the strategies employed by planters to reduce costs when sugar prices dropped included lowering wages or not employing labor for weeding fields. See El Imparcial (Cienfuegos), enclosure from Ramon Williams to Assistant Secretary of State William Adee, September 12, 1895, RG 84/Havana.

18. United States Consul at Matanzas David Vickers to Assistant Secretary of State John Davis, July 3, 1881, Dispatches from United States Consuls to Cuba, 1783-1906, Records of the Foreign Service Posts of the Department of State, Record Group 84, Matanzas, United States National Archives, Washington, D. C. (Hereinafter cited as RG 84/Matanzas.)

19. Scott, Slave Emancipation, 238-239.

20. Scott, Slave Emancipation, 217. See also "Gradual Abolition and the Dynamics of Slave Emancipation in Cuba, 1868-86." Hispanic American Historical Review, 63 (August 1983): 449-477. The rates established by the government for a patrocinado to purchase freedom were 30-50 pesos for each remaining year of the first five years, and half again as much for the last three (469). The minimum wage rate was fixed by the government at $1 to $2 a month for those 18-25 years of age and $3 a month for those over 25 (469).

21. Study on Cuba, 73-74. Figures on increased investment in tobacco probably reflect the extent of loss and recuperation, as well as cigar industry developments. See Thomas, Cuba, 134-135, 291.

22. Study on Cuba, 76, and Thomas, Cuba, 128-132. For more date on hurricanes, and coffee and tobacco fincas, see Susan Schroeder, Cuba: A Handbook of Historical Statistics (Boston: G. K. Hall, 1982), 31, 239, 263.

23. Goizueta-Mimó, "Effects of Sugar Monoculture," 115-116.

24. William Clark, Commercial Cuba, 406-408. The Louisville Asphalt Paving Company exploited the mines at Banes until 1880, when they abandoned them and their debts. Williams to Department of State, January 9, 1880, RG 84/Havana.

25. Clark, Commercial Cuba, 408-414. In 1883, Spain gave Juragua a twenty-year duty-free concession to export coal. U. S. Consul at Havana Fitzhugh Lee to Assistant Secretary of State John Rockhill, May 8, 1897, RG 84/Havana. For a more complete discussion of iron mining, see Lisandro Pérez, "Iron Mining and Socio-demographic Change in Eastern Cuba, 1884-1940," Journal of Latin American Studies 14 (April 1982): 381-406.

26. Clark, Commercial Cuba, 468-502.

27. The designation "government bank" is that of the author. Although neither the Banco de Español de La Habana nor the Banco Hispano-Colonial were established by the government, and cannot be

considered to operate like the U. S. Federal Reserve, several of their functions on behalf of the government earn them the title.

28. See scattered information in Legajo 135, 1881-1891, AHN.

29. Archivo Nacional de Cuba, Havana, Cuba. (Hereinafter cited as ANC), Gobierno Superior Civil, Legajos 1587, 1841 and 1587, 1855. For further information on Carlos Nuñez del Castillo, see Thomas, Cuba, 207.

30. Gobierno Superior Civil, Legajo 1587, 1862, ANC.

31. Banker's Magazine 35 (March 1881): 703.

32. Badeau to Davis, March 6, 1884, RG 84/Havana.

33. Banker's Magazine 38 (June 1884): 921.

34. Ibid., 922.

35. Gaceta de La Habana, 15 September 1885 in Legajo 831, Ultramar (Hacienda), AHN.

36. There is some indication that the Governor General of Cuba and the Overseas Ministry took interest in the future of the institution. See Ultramar (Gobierno), Legajo 4873, AHN. Monte de Piedad, Caja de Ahorros de Madrid, Director, to Subsecretary of the Ministry of Ultramar, August 3, 1885. The Caja de Ahorros was undoubtedly organized along the same lines as the Caja in Madrid and may have had joint stock-holders and/or officers. This needs further investigation.

37. Banker's Magazine 35 (March 1881): 703.

38. Ramon Williams to Assistant Secretary of State J. D. Porter, June 15, 1887, RG 84/Havana.

39. See Legajo 101, 1880-1886, Gobierno General, ANC.

40. Gaceta de La Habana, 10 July 1879 in Legajo 831, Ultramar (Hacienda), AHN. The Regla Warehouse had been in operation since before 1855. It was established by Andalusian Eduardo Fesser in an effort to compete with prices in the foreign-operated (United States) warehouse monopolies. Roland Ely, "The Old Cuba Trade: Highlights and Case Studies of Cuban-American Interdependence in the Nineteenth Century," Business History Review 38 (Winter 1964): 472.

41. Gaceta de La Habana, 10 July 1879.

42. The following year, the shares dropped to $200 each, but it is not clear why. Banker's Magazine 35 (March 1881): 703.

43. Gaceta de La Habana, 3 December 1880, in Legajo 1177, BEA.

44. Gaceta de La Habana, 8 September 1881, in Legajo 1177, BEA.

45. Badeau to John Davis, March 6, 1884, RG 84/Havana.

46. Williams to Quincy, August 23, 1893, RG 84/Havana.

47. Moody's Rating Book Service: Steam Railroads (New York: Moody's Analyses of Investment Companies, 1922), 459-461.

48. Atkins, Sixty Years in Cuba, 129.

49. The source of the following information is Clark, Commercial Cuba, "Cuban Business Directory," 469-502.

50. In 1893, this firm was reported to have failed after its managing partner committed suicide. Williams to Assistant Secretary of State John Quincy, August 30, 1893. RG 84/Havana. Since Clark still lists the company in his 1896 "Cuban Business Directory," it presumably survived the death of a partner.

51. Congress, House, Miscellaneous.Documents, Consular Reports, 53rd Cong., 2d sess. (Washington: Government Printing Office, 1893-1894), statement of Henry Ehninger, 151-153.

52. Statement of Richard Gibbs, Ibid., 153, and Roland Ely, "The Old Cuba Trade," 478. For example, Atkin's Soledad plantation employed its own commission merchant, Walter Beal of Boston. Report on Industrial and Commercial Condition of Cuba, Appendix, 261.

53. Enclosures from El Eco Militar, 3 and 4 October 1884 in Williams to Davis, October 8, 1884 and October 12, 1884, and from Williams to Porter, December 4, 1884, RG 84/Havana. Another element in merchant banking needs further research: where profits were invested. There is some indication that profits may have been invested in U.S. bonds. In 1880, Hall forwarded $4000 in bonds from Franchi Alfaro to the New York law firm of Plock and Company. Hall to Hay, February 23, 1880, RG 84/Havana. In 1884, Havana Consul Ramon Williams forwarded an undisclosed amount of U. S. bonds from Borges and Company, "bankers of this place," to the same law firm. Williams to Davis, November 26, 1884, RG 84/Havana.

CHAPTER V

ACCOMMODATION TO POLITICAL PURPOSES: CURRENCY, CREDIT, AND THE GOVERNMENT BANKS

Two Cuban banks earn the designation "government bank:" the Bank of Spain of Cuba and the Banco Hispano-Colonial. While both maintained their private business transactions, their central functions involved accommodation to government purposes. The activities of each and the role of the government in promoting them and their activities created a difficult economic climate in Cuba.

The history of the Banco Español de la isla de Cuba (Banco) reflects the tradition of consigning Spanish systems, institutions, and procedures to Cuba. The Banco was not listed as a branch of the Bank of Spain in Madrid in documents tracing the history of that bank. It can be described best as a parallel or correspondent institution. Banco purposes, statutes, and activities closely matched those of the Madrid bank. Directors communicated with increasing regularity with the Bank in Spain, and the bank also made financial arrangements through the Madrid bank to serve the needs of the Spanish government. Ultimately, the bank's relationship with the government--in organizing its resources and actions for government purposes--imitated the history of the Bank of Spain.

With its origins in the Banco de San Fernando, the bank was chartered as a stock bank in 1856.[1] Initial capital investment was three million in gold and it was authorized to issue paper notes for

that amount.[2] The following year, the Banco did just that, providing the first introduction of paper currency in Cuba and establishing the inevitable inflationary cycle that paper issues initiate.

Over the next twenty years, the Banco consistently increased both capital and issues, surviving the 1857-1866 crisis that forced other banks out of the market. When war approached in 1868, all banks faced financial difficulties. A run on the Banco brought about reduced discount rates, but the bank did recover.[3] As the war proceeded, the Banco and the government developed a closer relationship. It was established as an agent of the government for the duration of its existence.

The origins of this relationship were set in 1869, when the Captain General of Cuba arranged to have the Banco issue eight million pesos in new inconvertible notes. Used to finance the Ten Years War, this interest-free loan was backed by nothing more than faith in the government's survival. The debt to the Banco was to be repaid by proceeds the government expected to collect on extraordinary war taxes and export duties.[4] In 1872, the amount of note issues rose to forty-one million, or three and a half times the notes issued for Banco private business transactions.[5] Government issues reached sixty million by 1874. In certain recognition that it would not be repaid readily, the debt to the bank was charged to the public debt.[6]

Through this agreement between the Banco and the government, the Banco solidified its role as a government bank, even as it continued to operate with private capital and shares. Originally chartered for twenty-five years, new statutes were approved between 1881 and 1883. An analysis of the Banco legal structure and procedural guidelines

demonstrates its similarity to the Bank of Spain and its commitment to first serving the needs of the state and then the wealthiest of clients.

As in the Madrid bank, the Banco director was appointed by the government, providing the conditions for an important link between public and private finance. (See list of directors in Table 4.) By 1883, the title of "director" was changed to "governor," in conformity with the Bank of Spain title.[7] The governors' responsibilities included arranging board of shareholder and council meetings, presiding over meetings, and being generally responsible for the daily operations of the bank. More importantly, according to Articles 32 and 33 of the bank rules, the governor was also responsible for knowing:

> the financial situation of the Bank correspondents in and out of the island, and of the type and extent of businesses they run, [and for gathering] as much information as possible on the state of the houses of commerce on the island and the principal markets of the peninsula and overseas so as to agree on the amounts of credit to be given to the first in discounts; and to establish with the others all the relations that might be convenient to the Bank.[8]

The governor, then, had the significant responsibility of reading the economic pulse not only of island and Spanish businesses, but of the rest of the European economy as well. These assignments called for astute businessmen or economists, capable of analyzing information and taking appropriate actions to maximize Banco solvency and profit.

Judging from the nature of government appointments, however, other considerations tended to take precedence. During the inter-war years, the government appointed loyal Spaniards to the Banco offices. The 1878 director, Asisclo Piña, was also a shareholder in the Bank of Spain in Madrid and had been an alternative delegate of the Havana Junta General for the Banco Hispano-Colonial.[9] He held the position in the Banco for three years, when the president of the Council of Ministers in Spain,

Table 4

GOVERNORS OF BANCO ESPAÑOL DE CUBA

1857 - (Commissioner of Banco de San Fernando) Francisco Goyri

1872 - Julian Alvarez

1872 - (December) Juan Franco Tabernilla

1877 - (Interim Director) Acisclo Piña

1878 - (Interim Director) José Ramón de Haro

1878 - Asisclo Piña

1880 - José Cánovas del Castillo

1880 - (March through September, Interim Director) José Ramón de Haro

1881 - José Cánovas del Castillo

1891 - Ricardo Galbis

1893 - Antonio Puga

Sources: Legajos 734, 1175, 1177, BEA, New York Times, 19 February 1880, 30 November 1891, and 9 January 1893.

Antonio Cánovas del Castillo, appointed his brother, José Cánovas del Castillo, governor of the Banco.

This appointment was not greeted positively by all the shareholders. At a Board of Directors meeting in February 1880, the appointment was criticized as a sinecure and an attempt to draw the bank into closer ties with the government. Shareholders also objected to his large annual salary of $18,000 in gold. This expression of criticism is significant, for it provides otherwise scant evidence of the reluctance on the part of at least some shareholders to perpetuate government direction of Banco business. The Minister was not to be dissuaded from his purpose, however. The Vice Governor General of Cuba Emilio Calleja was called in to try to bring about an understanding in a joint meeting of the Board and Cánovas. Although agreement could not be reached, the government proceeded with the appointment. One of the Directors arose from his chair and vehemently protested. Responding to the hostility of the shareholders, Cánovas resigned the office. The Board requested another meeting with the government and a new appointee. They proved powerless to gain control over the leadership, however. Cánovas ultimately assumed the Governorship of the Bank.[10] And pursuant to expressed fears, during the years of Cánovas control the Banco did indeed increase its government ties.

By 1891, a new governor lead the Banco, and faced a scandal involving conflict of interest charges. The firm of Pellon and Company, which specialized in lottery tickets, attempted to gain large profits on that year's paper currency recall and exchange. The Cuban newspaper La Lucha charged that the Banco governor, Ricardo Galbis, was a partner in Pellon, violating restrictions on business connections for government

appointees. Galbis' response was to sue the owners of La Lucha, but he resigned in May 1892. His replacement was Antonio Puga.[11]

During the inter-war years, the selection of leaders was not based on appreciation of their rational economic judgments and ability to act autonomously. Government appointments indicated that Spain considered the political loyalty of the officer more important than his financial astuteness. As with the Bank of Spain of Madrid, the appointment of subordinates also ensured state control over Banco decision-making. The governor performed his duties with the assistance of subgovernors who required the confirmation of the royal government. All officers were shareholders, and, like the Bank of Spain, they selected a Consejo Gobierno (Council) that voted on bank practices. Their responsibilities and relationship to the governor, however, kept power concentrated at the top, in much the same way that royal government was structured.[12]

Banking and other business regulations in the colonies of Spain were circumscribed by guidelines set forth in Spain's Commercial Code. Officially, the Commercial Code was extended to Cuba and Puerto Rico in 1886, but since statutes of colonial banks required Spanish approval, initial formulation was in accordance with those guidelines. When the Code was officially extended to Cuba, of the 995 articles, only articles 179, 201, 453, 547, 550, 559, 798, 804, 934, and 940 were modified to suit colonial circumstances. For the most part, these articles merely substituted the names of colonial Spanish institutions, such as the Gaceta de La Habana for the Gaceta de Madrid or the Bank of Spain of Cuba for the Bank of Spain. However, the article setting forth procedures for organizing payment of public works projects contained an important addition in the colonial version. Monies for the completion

of public services were to be placed in general deposit vaults or--the colonial version added--in banks authorized for that effect.[13] In Cuba the Banco would be authorized to perform this function.

Bank statutes delineated most of the Banco's activities, including Governing Council functions in reviewing all types of credit requests. The Banco guidelines and procedures for bank operations restricted broad participation in banking. To enjoy the privilege of bank services, including discounting notes and handling promissory notes, creditors had to be approved by the Governing Council and Executive Committee of the shareholders. Lists of approved creditors were carefully established. Other creditors were permitted to have notes discounted if they followed a formalized set of procedures.[14] The bank discount rate was established as equal "for all classes of people...[and] according to that fixed by the governing council." The rate could vary by province.[15] This reference to classes should not, of course, be taken too literally, for only business interests discounted notes.

Loan transactions followed strict guidelines established in the statutes. The minimum amount worthy of consideration was 500 pesos. At this time, such a sum represented twenty to forty times the monthly wage rate of a sugar worker, or most other workers on a colonia.[16] It was therefore unlikely that such a sum would be loaned to anyone other than wealthy planters or businessmen, ensuring limited participation in this bank by others. The maximum loan to a person or partnership was determined on a case-by-case basis by the Governing Council. The Council also established the interest rate on the loan.[17] In a limited bank credit market, interest rates could be very discriminatory and fluctuate greatly. Collateral for loans had to be appraised by bank

experts and guarantees on loans were not accepted for more than four-fifths of the current market price.[18]

Statutes specified that accounts for business or personal transactions (checking) at the Banco would not earn interest "unless under special circumstances the bank considers it to be convenient, and in that case it will dictate the interest through the Governing Council and make it public."[19] Initial deposit on account was fixed at 300 *pesos* minimum and the account was not permitted to fall below 30 *pesos*.[20] This also restricted access to banking services, considering the rural wage scales and given an average urban working class wage of between 400 and 900 pesos a year.[21] Otherwise, "checking" business varied little from modern practices.

Deposits for "safe-keeping," which should not be equated with savings, were classified into four types: voluntary effects, effects in custody, governmental effects, and judicial deposits. Voluntary monetary deposits had to be at least 200 *pesos*.[22] Clearly, the bank was not interested in monitoring accounts for small amounts. The Banco promised to return deposits in the same specie it received: Spanish money, foreign money, gold, silver, jewelry, public bonds and other effects of the public or municipal Treasury.[23] Permission to deposit other valuables required the approval of the Council. The offer to return safe-keeping deposits in the same specie indicates that the Banco may have used some of these deposits for investment purposes. Nevertheless, not only did the bank not offer interest on these accounts, it charged a fee for safe-keeping equal to one percent of the value of the deposit.[24] Judicial and government deposit guidelines were much less structured, requiring further negotiation as situations

arose.[25] This legal flexibility provided the opportunity for government use of banking services not afforded to private business.

The bank also handled bills of exchange "to facilitate the monetary circulation of the country."[26] It did so in accordance with guidelines established in the Commercial Code.[27] In contrast with other procedures, little was specified in the statutes regarding privileges and practices, but the handling of bills of exchange and discounting of short term notes proved to be the major private functions of the bank.

Chapter Eight of the Banco regulations authorized the establishment of branch banks. The Havana bank approved the branches, but the branches were permitted to develop their own statutes and rules. Coordination came under the jurisdiction of a Havana administrator, the "Chief of the branch section."[28] Branch commission agents and other officers were to be named by the Governing Council. By 1881, the Banco had established branches in Matanzas, Cárdenas, Cienfuegos, Sagua la Grande, and Santiago de Cuba.[29]

As Table 5 indicates, the branches with the largest assets and liabilities were in Matanzas and Cárdenas. Banking there represented the preponderence of sugar plantations. With the largest assets, it also claimed the highest amount of loans and liabilities. Undoubtedly, the Cárdenas branch also engaged in agricultural loans, but as the area with the largest number of factories, it was more actively involved in other business enterprises. The Matanzas branch, however, reportedly ceased operation in 1893.[30]

Economic difficulties at the Matanzas branch would have had significant effects on business transactions, particularly during the years of the reciprocity treaty with the United States, between 1891 and

Table 5

BRANCH BANK STATEMENTS, 1881

BRANCH	ASSETS	LOANS/DISCOUNTS[a]	LIABILITIES
Matanzas	cash= 979,582		
	deposits/accounts=1,788,317		
	2,767,899	980,206	2,500,000
Cárdenas	cash=1,015,799		
	deposits/accounts=1,405,485	956,254	1,900,000
	2,421,284		
Cienfuegos	cash= 585,318		
	deposits/accounts= 864,764		
	1,450,082	473,270	1,200,000
Santiago	cash= 639,626		
	deposits/accounts= 608,360		
	1,247,986	211,468	876,151
Sagua la Grande	cash= 440,539		
	deposits/accounts= 365,699		
	806,238	503,752	944,291

[a]Usually three month terms

Source: Banker's Magazine, 36 (July, 1881): 18.

1894. Not only did the city have one of the largest populations on the island, it was also a major port, with only a fraction of the number of bankers and commission merchants operating in Havana and fewer than those operating in Cárdenas. (See Chapter Four.) In 1894, Matanzas province had 434 sugar plantations. Agricultural and industrial credit needs were not adequately met by only twenty-three local commission or merchant bankers.

The Sagua la Grande and Cienfuegos branches in Santa Clara province served populations of 14,000 and 41,000 respectively. (See population tables, Chapter Four.) The city of Santa Clara and all the townships and plantations surrounding it also benefitted from the use of this branch. In addition, rail connections from the east made it possible to serve Remedios, the port city of Caibarién, and the eastern plantations in the province. The 332 sugar plantations and 317 tobacco plantations were served by these two branches and only fourteen commission/merchant bankers. But the branches had liability problems in 1881. In Cienfuegos, liabilities almost equalled assets, though the branch maintained strong deposits and current accounts. At the Sagua la Grande branch, on the other hand, liabilities exceeded assets. Sagua engaged in more note-discounting than Cienfuegos even though Cienfuegos had almost twice the amount of cash and deposits. And although the population of the province exceeded that of Matanzas by more than 100,000, bank capital in 1881 was less than half that of Matanzas province.

Finally, the Santiago de Cuba branch, whose survival beyond the 1880s is not clear, was available to serve an area of limited economic development, but large population and resources. With no rail lines

between Santiago and Manzanillo or the Guantánamo Bay region, its activities were more confined. The other major towns in the province had to rely more on the commission/merchant bankers than on the Banco. Neverthelesss, its loan and note-discounting activities and liabilities were the lowest in all the island, while cash and current accounts compared favorably with Santa Clara, which served a larger population and four times the number of sugar plantations. In an area of rich ore deposits, the limited bank operations certainly affected the mining potential adversely. Limited banking helps explain why capital to develop mining was imported from United States investors, and mining profits that could have accrued to Cuban investors were instead exported, mainly to the United States.[31]

The east suffered in all ways from severe underdevelopment within the island economy. The organization of smaller, scattered estates could not provide the surplus capital necessary for investment, and few financial intermediaries were available to act as agents for mobilizing capital. As war approached in 1895, the already beleaguered estates were forced to sell to the highest bidders. These transactions were effected through both banks and merchant bankers.

The relationship between the government and the Banco inevitably reduced the play of market forces that might have provided more opportunities for investment in business ventures. Some of its largest projects appear to have involved government contracts. In addition to being responsible for the collection of duties and taxes, the Banco became the agent for government public works projects. For example, when Spain decided to build a basin, tunnel, and aqueduct in Cuba, it gave the building concession to Heydrick and Company, a German firm that

later organized another company in the United States. Construction was financed through the Banco, the company receiving draws as approved by a bank-appointed engineer.[32] This represented a significant treasury function performed by the Banco, but perhaps no other activity demonstrated the inextricable link between the government and the bank as clearly as the currency issue.

The Ten Years War exacerbated currency problems in Cuba, as Spanish gold coins left the island to pay for military expenses. In their place, French Louis coins circulated on the island in greater numbers.[33] This circulation increased after the Franco-Prussian War (1870-1871), when Spain exported gold to France to assist in the war effort.[34] The gold was minted into coins in France and found its way back into Spanish circulation. It was admitted at par in exchanges.

From 1876 to 1880, the Spanish government began to mint more gold pieces to replace the diminishing supplies of the onza (originally a 16 ounce gold piece) and its fractional coins of 8, 4, 2 and 1 peseta. The new pieces were predominately 5 and 25 peseta gold pieces and they were minted in large quantities.[35] By increasing the fractional disbursements, Spain hoped to compete more effectively with the other fractional coins that circulated on the island. The circulation of Mexican silver and other coins from Chile, Peru, and Costa Rica had made exchange difficult. However, the import of foreign coins did meet some of the demand for coinage that the Spanish government could not fulfill.[36] In 1879, the government gave approval for the duty-free import of gold coins to Cuba from all the American republics, recognizing them on the same standard with Spanish coins. At the same time, tariffs on gold exports increased by 5 percent.[37] But with gold supplies in Cuba

continuously dwindling, Spain, like other western systems, was forced to move toward consideration of a silver standard. In this conflict, the intricate relationship between the Cuban and United States economic systems took on new dimensions.

During the Ten Years War, the United States also had been engaged in controversy about the virtue of the gold versus the silver standard, This indecision affected trade with the Cuban economy, especially in 1869 when the price of gold fluctuated greatly on the New York market because of speculation.[38] Freely floating exchange rates complicated Cuban foreign exchange through 1879, when the United States decided to return to the gold standard.[39] In the meantime, not only did the United States gold eagle make its way to Cuba, so did a large number of U. S. silver coins, especially five and ten cent pieces. These coins circulated widely as change in business transactions. For example, the merchants Ojero, Warburg and Company received $30,000 in dimes in just one transaction with a U. S. firm.[40] United States silver coins became increasingly acceptable in exchange partly because of the denominations and partly because of the absence of Spanish coins. In addition to their accepted exchange value, the U. S. coins had ceremonial use. For those who could afford it, at baptisms the five and ten cent coins had holes punched in the center and were tied with blue and red ribbons. They were then distributed among the poor.[41]

At the end of the Ten Years War, the Spanish government began to greatly increase its minting of silver pieces, especially five _peseta_ denominations. Through Cuban trade with Spain, the stock of silver in Cuba had increased dramatically.[42] The _New York Times_ reported in 1892

that the island economy was being "flooded" with Spanish silver.[43] In the absence of concise accounting methods for keeping track of the money supply, however, it was difficult to determine to what extent silver was surpassing gold in transactions.

The United States Department of State in 1883 requested a report from its consular offices regarding currency matters. The report from Cuba, based on Ministry information, contended that gold coin imports amounted to $2,558,099, while exports exceeded three million. Silver imports were reported at $1,255,823, while exports amounted to $458,795.[44] The movement towards a silver-backed currency proceeded through the inter-war years, finally culminating in a transition to silver-backed currency by 1895. Until the beginning of the war Banco assets and paper money continued to be reported in terms of the gold standard.[45] But in 1896, bank notes were issued on behalf of the government again, this time backed by silver.[46] From 1878 to 1895, currency confusion was endemic and greatly contributed to the sense of instability in the Cuban economy.

The Spanish _onza_ (gold dollar or _peseta_) was considered equal to $16 in United States gold. In Cuba, however, government decree set the circulation value of coins at $17, artificially devaluing them in transactions.[47] It has been argued that this false gold-currency ratio contributed to the 1868 economic crisis, as profits from sugar inevitably left Cuba through the banking exchange system.[48] The practice continued throughout the colonial period, exacerbating the gold drain problem.

The metal crisis was complex enough, but issues of paper money through the Banco contributed to further economic confusion. Bank notes issued for government war expenses and those issued for the bank's

private business were indistinguishable from each other. All were printed by the National Company of Bills at the Bank of New York. By 1874, 163 of these paper *pesos* were at par with an ounce of gold.[49] Their value fluctuated from 1869 to 1880, but never dropped below 133.[50]

The Spanish government never really established these notes as legal tender, though by announcing that they were acceptable in certain government transactions, the notes carried de facto the force of legal tender. In fact, refusal to transact business in bank notes was almost tantamount to rebellion.[51] When the Banco decided to issue notes beyond its legal limit for private transactions, the value of the notes dropped accordingly. The bank was accused of engineering this inflationary practice in order to make a profit on the issues, a profit estimated by 1880 to be at least ten million in gold.[52]

Since the government-authorized issues had become part of the public debt and Spain was desperate for more foreign loans during the Ten Years War, Madrid recognized the necessity of trying to bring some order to the currency chaos. In 1871, it had imposed transitory taxes in part to amortize the two year old paper issues. In 1874, it specified that customs duties had to be paid at minimum by 50 percent metal, 25 percent paper money at par, and 25 percent in bank bills with a 100 percent surcharge. Property taxes that were paid in bank bills were subject to a 100 percent surcharge.[53] In 1875, the government ordered the destruction of any paper money collected by the bank, and re-affirmed its intent to limit issues in 1878.[54] Collection and destruction of paper money, however, depended on Treasury payments to the bank or purchase of the notes. The Treasury was in no position to follow through on its part of the financial arrangement. Therefore, the

bank did not encourage the call-in and neither redeemed the collected notes at par nor completely destroyed them.[55]

Just as the Bank of Spain of Madrid had been charged with collection of taxes in Spain, the Bank of Spain of Havana was put in charge of collecting taxes in Cuba in the mid 1880s. Since its prior loans to the government had been based on future receipts of extraordinary taxes, this new responsibility was an extension of its arrangement with the government.[56] Nevertheless, between 1878 and 1883 the Governor General had decreed that notes from the Cuban bank were not to be used for the payment of any taxes or other government revenues, with the exception of lottery receipts.[57] This created an unusual situation for the Banco. Through a complex relationship between the newly-formed Banco Hispano-Colonial and the Bank of Spain in Madrid, the Banco had become responsible for forwarding Cuban customs duties to the Treasury of Spain. After the Spanish government announced that Havana bank notes would not be acceptable for government transactions, the Banco found itself in the position of refusing its own notes for collection of fees to the government. This further reduced faith in its currency. At the same time, the government made other efforts to enhance its hard currency stock, increasing rail rates, inheritance and other taxes.[58]

Government edicts failed to lower appreciably the quantity of bank notes in circulation. In 1880, the amount of bills listed as assets totaled 5,335,889 pesos. Gold assets were 5,852,701 in coin. Despite government attempts at recall and amortization, in 1881 the amount of gold assets increased to 7,366,799, while the bills increased to 8,652,584.[59]

At this point the sugar industry entered a crisis, and world prices started dropping steadily. Import prices did not drop commensurately, however, so island gold supplies fell from $13.4 million in January 1882 to $7 million in 1883.[60] With reduced metal currency, employers paid more wages in paper money, and urban strikes by such divergent groups as tailors, coach drivers, and bakers began to plague the economy. Workers became frustrated at receiving wages in depreciating currency.[61]

The atmosphere of crisis was further exacerbated by the gradual abolition process. Hacendados were required by law to allow slaves to purchase their freedom. Increasingly, the most common coin in circulation among unskilled laborers, especially in the eastern part of the island where bank facilities and transactions were more limited, had become Mexican and United States silver. The small denominations of $2 and less facilitated payment in the minimal wage scale. Edwin Atkins, in recalling payments to his former slaves remarked that the slave "was very proud to be paid in silver dollars, which was probably the first money he had seen."[62] But to circumvent the emancipation law and to increase the value of the purchase, slave owners were refusing freedom payments in silver, requiring instead that the increasingly rare Spanish gold coins had to be used for payment.[63]

Planters, wage-earners, and slaves were all caught in the currency crisis. Planters needed gold to transact purchases on external markets and to pay government fees, and they needed currency in small denominations to pay workers. They turned to silver or tokens. Urban wage earners who needed to purchase goods found them advertised with payment stipulated in Banco notes or in gold. Without gold, they could not exchange for notes and notes were depreciating rapidly as gold

assets dropped. Finally, slaves found it even more difficult to acquire the standard currency to purchase their freedom or consumer products. And plantation workers paid in silver and tokens found food and other purchases controlled by "company store" prices.

The financial situation east of Havana reflected the deep lack of faith in the island economy. As one bank after another failed between 1882 and 1884, bank notes were refused in business transactions east of Cardenas.[64] Both to amortize the note issues and increase faith in the bank notes, the government agreed in 1883 to accept them at full nominal value for payment of 10 percent of import duties.[65] In 1884, the government further permitted bank notes to be used for payment of taxes.[66] But the economic crisis of 1883-1884 called for stricter control over the economy.

Currency problems combined with other crises to destroy sugar production. In 1883, Cienfuegos sugar production dropped to one half the previous year's crop.[67] The borer insect and fires damaged cane fields and cattle disease reduced stocks.[68] Finally, the Spanish government took measures to bolster the sagging economy. On July 25, 1884, the Spanish parliament gave the Captain General extended power to impose extraordinary economic measures in Cuba.[69] The authorizations included reductions of public services, reductions on interest payments on the debt through re-negotiations with holders of Cuban bonds, and authorization to convert or withdraw the paper currency of the Banco.[70] This authority, coupled with the amortization program established by law on July 7, 1882, reduced the amount of bills in circulation by about seven million in 1884.[71]

The currency problem in 1884 was decribed as one of "despair" by the U. S. Consul in Matanzas. All credits were suspended and laborers went unpaid because there was no currency with which to pay them. To illustrate the severity of the crisis, the Consul conjectured that he did not believe a draft endorsed by Moses Taylor for so small an amount as $10,000 could be cashed anywhere in Matanzas.[72]

So little hard currency was available that even lottery winners were unable to redeem their tickets. Edwin Atkins recalled that one of his debtors seemed likely to "go under" before he won a one half million _peso_ state lottery ticket. Because of the scarcity of coins, he was unable to cash it, even in Havana. Nor would any merchant banker discount it. Atkins finally deposited it with the U. S. firm of Kidder, Peabody, and Company, who then had to collect from Madrid.[73]

Neither Madrid nor Havana's fiscal and monetary programs alleviated the severe conditions, as increased taxes on services and products tended to offset any benefits to the Cuban economy.[74] The currency problems continued to intensify as the government renewed efforts to raise money on foreign markets.[75] Bank discount rates rose above 13 percent and private money lenders exacted even higher rates.[76] Economic crisis helped mobilize opposition to Spain, and by 1888, the United States Consul in Havana reported to Washington that the Consul in Santiago was requesting a ship be sent from the United States to assist North Americans when the revolution brewing there achieved full force.[77] As conditions worsened, unemployment increased. In November, the civil governor of Havana issued an order against the increasing number of vagrants "infesting" the city.[78] By 1889, planters had neither coins or

bank bills to pay debts and taxes. The government finally permitted them to issue promissory notes for taxes due.[79]

At this juncture, the Banco compounded the currency crisis by calling in its old issues of notes to replace them with new, "clean" issues. The issues recalled were bills of three peso denominations and under. However, they were replaced with 5, 10, and 25 peso bills.[80] This merely added to the inflationary problems and contributed to the loss of faith in the paper currency.[81] By 1891, several businesses were calling for a boycott of the bills, and by 1892, many retailers were putting signs in their store windows refusing the paper money and demanding payment in gold, silver, or copper.[82]

With the economy poised on the brink of disaster, the United States, in an attempt to improve its trade position, created conditions that stimulated increased production of sugar. In 1891, it reduced customs duties to permit free entry to many of the goods produced in Cuba, including unrefined sugar. Through the Aldrich amendment, this benefit was extended only to countries which did not discriminate against U. S. exports. Cuba's agricultural interests and Spanish self-interest ultimately forced the development of the Foster-Cánovas agreement, which extended the tariff freedom to Cuba. Both planters and the Spanish government believed sugar production increases would be the salvation of the the Cuban economy.

The continuing drop in sugar prices had been in part a function of the activities of the Sugar Trust in the United States. The Havemeyer Sugar Trust, operated by Theodore A. Havemeyer and his family, organized in the late 1870s and produced refined sugar at lower prices than other refiners. Between 1875 and 1887, they had forced more than twenty-five

other firms out of business, absorbing many into a monopoly that could control prices of unrefined sugar from Cuba.[83] Seventy-eight percent of the refining capacity of the United States was in the control of eleven trustees.

Although the Sugar Trust was outlawed by the Sherman Anti-Trust Act, it continued to function. By 1891, competition from other refiners like Claus Spreckels and legal difficulties forced it to reorganize in New Jersey under the name of the American Sugar Refineries Company.[84] It then controlled 98 percent of national sugar production. A few legislators from New York attempted to determine the origins and operations of the new trust and began investigative hearings in 1891. At these hearings, officers refused to produce any of their account books, arguing that many of the books of companies absorbed by the Trust had disappeared.[85] Without adequate data, the investigative committee was powerless, and ill-matched against the attorney for the Trust, Elihu Root, future Secretary of War (1899-1904), and Secretary of State (1905-1909), who later played an instrumental role in Cuba's post-war destiny.

The Trust maintained its economic and political power throughout the decade. At least one Cuban planter attempted to counter the effect of the Sugar Trust by trying to arrange an alternative trust with Philadelphia refiners.[86] Other North American businessmen, hoping to cash in on the high sugar profits, also established competitive refineries, like the National Sugar Refining Company of Yonkers, New York, bought from Jacob Read by D. H. Howell, Nathaniel Tooker, and Albert Banker.[87] Yet none equalled the power of the Havemeyer Trust, and the government was ineffective in halting sugar mergers. In 1894,

the United States Attorney General sought to use judicial restraint to block the merger of sugar refiners Spreckels, Knight Company, Franklin, and Delaware, but failed.[88] At the same time, the Havemeyer Sugar Trust was charged with making large campaign contributions to certain members of the Democratic party in return for protection of its interests.[89] Some Senators were accused of conflict of interest in drafting the sugar tariff schedule because of their sugar stock portfolios.[90]

For the duration of the Foster-Cánovas treaty then, and well beyond it, Cuba's tradition of producing and exporting raw sugar at prices determined in the United States was secured. The final refining processes were impossible for Cuba to incorporate, given the depressed economic climate. The export of the raw product did not produce the same profit margin as that earned by United States refineries. Moreover, while the agreement stimulated sugar production during the three years it was in effect, it created other dislocations in the Cuban economy.

Once again, Cuba embarked on a whole-scale effort to produce a raw material which had no "backward linkages." That is to say, the sugar was produced at a reduced stage of refinement that allowed no opportunity for attendant technological development. Even for those Cuban sugar millers who wanted to import the technology, the state of the economy frustrated their efforts. There was insufficient capital to develop the technology adequately.

From the outset of the reciprocity agreement, the stimulation of the sugar economy proved to be a mixed blessing. Production was complicated at all stages by labor and transportation problems. The railroads had insufficient cars to move the higher volume of sugar and

molasses from country stations to ports, resulting in delays. Casks of molasses were left at stations along the way because warehouses were inadequate even to store the sugar.[91] In 1892, many planters became anxious about the coming crop. Romeo Robledo, the Foreign Minister of Spain, planned a visit to Cuba to examine the effects of the tariff on his sugar estate near Matanzas.[92] Other planters, anticipating further expansion, contracted for machinery to be purchased from Europe. The firm of Bea, Bellido, and Company broke ground for a new plant at Matanzas at a cost of $300,000.[93]

The controlled price of sugar, however, did not merit such expansion plans. The Banco de Comercio, which had enjoyed a lucrative career in banking and had even loaned the government funds in 1879, had to suspend specie payments in 1893.[94] The sugar brokers in Havana had decided to withhold sugar shipments to New York in hopes of creating false scarcity and higher prices. Without sugar sales, the banks drew no bills of exchange, and therefore received no gold from the U. S. At the same time, planters had to withdraw gold from banks to purchase supplies, some of them from abroad. Specie reserves dwindled to an alarming level. As soon as the Banco de Comercio suspended specie payments, a run was made on the Banco of Spain of Cuba.[95] The 1893 financial crisis also brought about the demise of some of the oldest and largest sugar firms that had over-extended themselves, like Bea, Bellido, and Company.[96]

The Foster-Cânovas agreement actually reduced Spain's ability to increase earnings from the Cuban economy. With lowered duties, receipts had to come from higher taxes. And by 1893, the government recognized that something new had to be done to increase faith in Spanish bills.

As long as metal currency remained scarce, paper money was the only alternative. A new mortgage law tied the issue of paper money to the mortgage bonds of the city government of Havana.[97] These bonds were initially quoted on the stock exchange in Madrid, but the Banco's governor proposed they be extended to exchanges in Paris, London, and Antwerp.[98]

In August 1893, the Governor General of Cuba met with a group of merchants and bankers to encourage them to take the Spanish bills at par in payment of all transactions in foreign exchanges, purchases, and sales. They agreed. However, the government still refused to accept the notes for customs duties.[99]

The general state of the economy was not improved by these actions. Taxes kept consumer costs high, and problems in translation of the treaty agreement also created difficulties in interpretation and implementation.[100] Credit continued to be a severe problem, and one that facilitated the purchase of large sugar estates, like Constância, Trinidad, and El Triunfo by North Americans, including the Havemeyers.[101]

The treaty had never been popular with the merchants in Spain, who now faced more United States competition in the Cuban market. By early 1893, the Chambers of Commerce of Havana and Santiago de Cuba agreed with Spanish merchants and called for an end to the reciprocity plan.[102] The prospect of a sugar crop of over one million tons in 1894 made planters more anxious than pleased. Banks were over-extended from the 1893 crop and even wealthy planters were forced to seek credit elsewhere, at rates as high as 15 percent.[103] The planters had just cause for concern. On the New York market, sugar stock fluctuated

enormously in the spring of 1894.[104] Finally, both the United States and Spain determined the agreement benefitted neither government. The new Wilson-Gorman tariff went into effect in August 1894, after the manipulations of the Trust and competition with the European beet sugar industry brought sugar prices down to their lowest point yet recorded.

The end of the tariff agreement merely added to the credit crisis. By the end of the year, planters who had produced the one million ton crop were concerned about the price they would obtain in 1895. In Santiago de Cuba, a mass meeting of the Association of Property Holders was held. This group of sugar manufaçturers, merchants, cane growers, and other professions in the province agreed that a reduction in wage labor was the best means of meeting the cost of harvesting the coming crop.[105] Once again, the price of economic mismanagement would be paid by those at the bottom of the economic scale.

Other planters clarified their lack of faith in the credit system of Cuba. To meet the impending sugar industry crisis, they argued, the Overseas Minister should negotiate with the Bank of Spain of Madrid to send a delegation to Cuba with the authority to open a credit account of five million pesos. If this proved impossible, they proposed as an alternative the establishment of a consortium of planters, sugar manufacturers, import merchants, directors of banks, rail companies, and cigar manufacturers. This group would consider a special fiduciary issue of bills or notes that would be acceptable in exchange and would be guaranteed by sugar receipts.[106] Having lost complete trust in the Cuban Banco and other credit services, as well as the currency, the sugar interests were now proposing the establishment of their own credit system and currency.

Nor did the government seem ready to develop or support any other banking system that would meet the currency and credit needs of the Cuban economy. Increasingly, the government seemed to view banks as agencies for mobilizing private capital to meet government needs. In the process of acquiring these loans, however, it had reduced the most valuable benefit of colonialism: tax receipts were partially pledged to the Bank of Havana, and after 1876, customs receipts were pledged to the Banco Hispano-Colonial.

The Banco Hispano-Colonial (BHC) organized in 1875 with a capital of 75 million pesetas, raised through stock subscriptions in Barcelona, Madrid, and Havana. Its president was Spaniard Antonio Lopez y Lopez, and its Vice President Manuel Girona. It had a joint delegation in Havana, with an Administrator General, who was Mariano Cancio Villamil, the Overseas Minister. The BHC was involved in several business undertakings in the colonies, but Article 2 of its statutes specified that the "special object of the BHC is to loan the the Spanish Government the sum of 75 to 85 million pesetas with the exclusive destiny to the urgent attentions of the Treasury of Cuba."[107]

The creditors had developed this plan after deliberations between Lopez, representing several credit establishments in Barcelona, Manuel Calvo y Aguirre, representing creditors in Havana, and Marqués de Vinent y Rafael Cabezas, representing the newly-formed (1871) Banco de Castile. A provisional contract was arranged for a one-year installment loan to the Cuban Treasury.[108] The interest charge to the government was 10 percent, and there were other charges as well. In return, the BHC was empowered to collect the Cuban customs receipts for ten years and

forward them to the Treasury in Madrid, after deducting principal, interest, and fees on the loan.[109]

The BHC was a bank without an office in either Spain or Havana. In Havana, it arranged its business in the Bank of Spain of Havana offices, consulting with the Banco on collection of the duties and deposits for the Banco vaults. The Banco, in turn, was responsible for seeing that the net customs duties were forwarded to the Bank of Spain in Madrid for ultimate deposit in the Madrid Treasury. For verifying the accounts and monitoring procedures, the Madrid Bank of Spain exacted a commission fee from the Havana bank.[110] The Bank of Havana was merely a depository and accountant for the customs collections, and received no interest or fees from them. With many foreign loans negotiated on the collateral of Cuban customs receipts, the Madrid bank had to verify that the duties had been received before loan transactions could proceed.[111]

The BHC in Havana not only received payment on customs duties in return for its loan, it also oversaw the collections at docks, ports, and inland posts. It monitored transactions for fraud and error. Moreover, it had the right to nominate customs employees, and even to suspend them. Such responsibilities, which should have been carried out by the government, gave it extraordinary powers over the major component of the Spanish revenue from Cuba.

Under its statutes, the BHC could also carry out other contracts with the government, open current accounts and negotiate other banking and credit business. The BHC differed little in structure from the Bank of Havana. It had an executive board that maintained control, but because of its special function in Havana, it gave power to the Havana General Administrator in conjunction with a Cuban Junta. This

administrator was required to validate any decisions by the Cuban Junta with his signature, but he was also required to stay in close communication with the Barcelona office and the office of the Castile Bank. The Castile Bank was the BHC's "home" in Madrid, and the executive committee was to meet once a month there, and maintain a current account with the BHC.[112]

Procedurally, the BHC arrangement with the government was unusual. Through their agents, the BHC delivered 750,000 pesos to the Governor General in Havana for the Cuban army.[113] This completely side-stepped the treasury function in either Spain or Cuba, which may have been an important elimination of the "middleman" during war times. In 1877, the BHC provided another generous loan to the Cuban Treasury, an act that was acknowledged as one of great patriotism.[114] Since the BHC charter authorized it to loan up to 100 million pesetas to the government, it seemed to be working quickly towards this limit. Its success in profiting from this arrangement seemed secure, judging from its announced trimester dividends.[115] The real difficulties it was creating for the Treasury, however, did not become clear until 1884.

In April of that year, the BHC advanced another large loan to the Cuban Treasury. This time the interest rate was 9½ percent, with a 1 percent commission fee. The loan was alarming news to those who objected to customs duties being used to service a debt. Some believed the BHC was profiting too much from its loans. It was estimated to be receiving $23,000 a day from the duties repayments.[116] Meanwhile, the government had insufficient funds to pay for salaries and public works. When the soldiers decided to revolt at Manicaragua in October of 1884, in part because of having survived six months without pay, the government turned

to the BHC and Bank of Havana for help.[117] The BHC advanced yet another loan that was designed to help pay off interest due on its prior loans. This unusual loan of 5,000,000 pesetas actually provided only 2,000,000 to the government. The rest, less $500,000 to the Colonial Minister for expenses, was "returned" to the BHC to cancel some of the government's debt.[118] Of course, the net effect was to further increase the government debt and secure the BHC-government relationship.

Although its statutes chartered it initially for twelve years, the BHC survived to at least 1896.[119] It retained its close relationship with the Treasury and the Bank of Havana. The complete consequences of its loans to the government are inestimable, but the arrangement it made to insure repayment of the loans certainly contributed to Treasury shortfalls. Since the original contract covered an otherwise difficult time for sugar and credit, this Treasury loss was even more significant. On the other hand, contracting duty collections to private business in this way may have improved revenue receipts, given traditional complaints of graft, corruption and bureacratic inefficiency.

The long-range significance of the BHC arrangement with the government may have been the formal consortium of Madrid, Barcelona, and Havana financiers. It is impossible to know how much of the income they received from customs was re-invested in the Cuban economy, or how much from the dividends to Havana shareholders went back into the economy. The BHC was said to have invested in Spanish, Philippine, and Cuban agricultural and industrial ventures.[120] Since its original organizers were clever enough to arrange a fool-proof method for collecting quickly on their loans, they demonstrated that they were astute businessmen. References to the bank's activites, however, are sketchy.

Neither the Bank of Havana nor the Banco Hispano-Colonial acted primarily as agents for financing production or marketing of sugar in Cuba. The Bank of Havana became the government's tax collector and agent for issuing paper money. Its private business activities centered more on discounting notes, offering short term loans, and handling bills of exchange than on financing sugar production. Similarly, the BHC's only reason for incorporating was to establish a relationship with the government. The development of the sugar industry and other industries in Cuba would depend instead on other agents.

Notes

1. The Banco is also referred to as the Banco de La Habana in official documents.

2. Banker's Magazine 35 (March 1881): 679.

3. Acting Consul General at Havana Henry de la Reintrie to Seward, October 24, 1868, RG 84/Havana. The economic and political crisis was a harbinger of future events, as de la Reintrie requested United States naval reinforcements for the "protection of our merchants and interests here."

4. Havana Consul E.S. Plumb to Fish, May 28, 1869, RG 84/Havana.

5. "Banco Español de La Habana - Su situación en la tarde de diciembre 7, 1872," Legajo 1177, BEA.

6. Villa-Amil, Situación económica, p. 3.

7. Unfortunately, no information is available on the Banco's 1856 charter. A reproduction of the 1883 rules and statutes can be found in Colección Legislativa, Volume 131, 1883, "Reglamentos del Banco Español de la isla de Cuba," 177-228. (Hereinafter cited as "Reglamentos.")

8. "Reglamentos," Articles 32 and 33.

9. "Banco Español de La Habana - Su situación en la tarde de diciembre 7, 1872." Legajo 1177, BEA and "Statutes of the Banco Hispano-Colonial," Legajo 734, BEA.

10. New York Times, 19 February 1880, p. 1.

11. New York Times, 12 November 1892, p. 8, and 30 November 1981, p. 2. The year was not a milestone in government honesty. In December, the Secretary of the Treasury was sentenced to 18 years in prison, three months and one day on the chain gang, a fine of 12,500 pesetas, and remittance of 100,000 pesetas for his theft of the Treasury.

12. "Reglamentos" Chapter II, Article 40.

13. José Gallostre y Frau, ed., Código de comercio Español vigente en la peninsula e islas de Cuba y Puerto Rico.

14. "Reglamentos," Article 163.

15. "Reglamentos," Articles 168, 169.

16. Report on the Commmercial and Industrial Condition of Cuba, Appendix, statement of P. M. Beal on average salaries in gold and maintenance, 253-254. Research by Rebecca Scott indicated average 1888 wage levels in rural Cienfuegos of 14-17 pesos per month, in Trinidad 9-10 pesos, and in Matanzas 35-40 pesos. Scott, Slave Emancipation, 236-237.

17. "Reglamentos," Article 172.

18. "Reglamentos," Article 174.

19. "Reglamentos," Article 189.

20. "Reglamentos," Article 191.

21. Clark, Commercial Cuba, reported wage rates in urban Cárdenas averaged one peso to three and one quarter pesos per day in 1894 (341). The cost of living also reduced saving potential. In 1881 Matanzas (city), which was presumably less expensive than Havana, urban rents averaged between $25 and $100 a month, depending on location and size. Milk cost the equivalent of $.50 a gallon, butter and cheese $1.25 a pound, rice and beans $.20 a pound. Consul at Matanzas George Roosevelt to Hay, January 31, 1881, RG 84/Matanazas.

22. "Reglamentos," Article 206.

23. "Reglamentos," Article 212.

24. "Reglamentos," Article 215. Although the Code of Commerce and Civil Code specified procedures for earning interest, they also specified that "pawn shops and savings banks shall be governed by their special regulations." Translation of the Civil Code in Force in Cuba, Puerto Rico, and the Philippines (Washington: Government Printing Office, 1899), 147.

25. "Reglamentos," Article 222.

26. "Reglamentos," Article 228.

27. "Reglamentos," Article 230.

28. "Reglamentos," Article 232. See also letter from José Cánovas del Castillo to the Governor of the Bank of Spain, September 15, 1881, Legajo 1177, BEA.

29. Banker's Magazine 36 (July 1881): 17-18. According to Clark, Commercial Cuba, a bank offering short term, 10 percent loans was established in Puerto Príncipe, but it is not known if this was a Banco branch (389).

30. Clark, Commercial Cuba, 338. The branch had its share of difficulties. In addition to those associated with agricultural loans, it suffered from theft. In 1881, two employees of the bank chartered

the Spanish steamer Alicante under the pretense of buying cattle in Mexico. They apparently conspired with at least four other men to rob the bank of a large amount of gold and securities, which was never recovered. Even theives chose not to deal in bank notes. New York Times, 23 July 1881, p. 5, 24 July 1881, p. 1, and 28 July 1881, p. 5.

31. See Schroeder, Cuba: A Handbook of Historical Statistics, 280, for a table of iron ore shipped to the United States from Santiago de Cuba.

32. Clark, Commercial Cuba, 285. See also Legajo 829, Ultramar (Hacienda), AHN. From 1890 through 1891 this firm established two corporations under the laws of New Jersey: Heydrich, Raffloer and Company, and American Storage Company, which made cordage. The factory initially brought in U. S. "experts" to teach Cuban laborers the work and it continued to employ many North American citizens in the factory. Report on the Commercial and Industrial Condition of Cuba, Appendix, 27-28. The water works in Havana were under construction for thirty-five years. During the last two years, work was completed by the U. S. firm Runkle and Smith, with the Banco advancing funds. New York Times, 5 February 1893, p. 16.

33. LeRiverend, Historia económica de Cuba (La Habana: Instituto del Libro, 1967), 184, and Study on Cuba, 32-34.

34. "The Cuban Tariffs," report enclosed with dispatch 782 from Havana Consul Henry C. Hall, February 19, 1879, RG 84/Havana.

35. Ottomar Haupt, The Monetary Question in 1892 (London: Effingham Wilson and Company, Royal Exchange, 1892), 150.

36. Villa-Amil, Situación económica, 174. In 1874, the government appointed a special commission to study the currency problem. It included the chief of Administration, a functionary of the Bank of Spain, and a local businessman.

37. "The Cuban Tariffs," Hall to Department of State, February 19, 1879, RG 84/Havana.

38. Congress, House, Reports of Committees on the Gold Panic Investigation, 41st Cong., 2d sess., Report no. 31 (Washington: Government Printing Office, 1870).

39. Milton Friedman and Anna Jacobson Schwartz, Monetary History of the United States, 1867-1960 (Princeton: Princeton University Press, 1963), 55-91. Spain accepted exchange rates for Cuban trade according to the New York market.

40. De la Reintrie to Hunter, July, 14, 1868, RG 84/Havana.

41. New York Times, 12 June 1892, p. 8.

42. Haupt, The Monetary Question, 163. The currency problem prompted expanded fields of crime as well. In 1881, Havana police captured four counterfeiters and their machinery used for duplicating fake Spanish, American, and Mexican coins. New York Times, 23 July 1881, p. 5. In 1880, a counterfeit ring was exposed in Santiago de Cuba. See Emilio Bacardí y Moreau, ed., Crónicas de Santiago de Cuba, 10 Vols. (Madrid: Breogan, 1973), VI, 349.

43. New York Times, 18 May 1892, p. 8.

44. Badeau to Davis, May 8, 1883, RG 84/Havana.

45. New York Times, 12 June 1892, p. 8.

46. Gaceta de La Habana, 28 August 1896, and Governor General Valeriano Weyler's decree, enclosure from Vice Consul General Joseph Springer to Rockhill, November 26, 1896, RG 84/Havana.

47. Hall to Assistant Secretary of State John Cadwalader, August 18, 1875, RG 84/Havana.

48. Danielle Turu, "L'Argent et les échanges commerciaux à Cuba au XIXes siècle: étude de'une crise économique," Jahrbuch für Geschichte von Staat, Wirstshaft und Gesellschaft Lateinamerikas 16 (1979): 311-339.

49. LeRiverend, Historia económica, 184.

50. Banker's Magazine 35 (March 1881): 701.

51. Ibid.

52. Foster to Frelinghuysen, August 23, 1884, RG 59/Spain.

53. Study on Cuba, 34-35.

54. Havana Consul Fitzhugh Lee told Secretary of State John Sherman on May 12, 1897, that reliable bankers indicated many of those notes had nevertheless passed back into circulation. May 12, 1897, RG 84/Havana. More research is needed on who held the notes and how their circulation affected values. Also see enclosure explaining amortization of customs duties in letter from Interim Director of the Bank of Spain of Cuba, José Ramón de Haro, December 2, 1878, Legajo 734, BEA.

55. Banker's Magazine 36 (July 1881): 21.

56. Report on the Commercial and Industrial Condition of Cuba, 7.

57. Hall to Seward, November 27, 1878, RG 84/Havana.

58. Banker's Magazine 35 (March 1881): 701.

59. "Situación del Banco Español de La Habana" published in the Gaceta de La Habana, 15 May 1880, enclosure with letter from José Ramón de Haro, interim Director to the Governor of the Bank of Spain, June 3, 1880, Legajo 1177, BEA. See also "Situación" in Gaceta de La Habana, 27 August 1881, enclosure from José Cánovas del Castillo, to Governor of the Bank of Spain, September 8, 1881, Legajo 1177, BEA.

60. Banker's Magazine 38 (June 1884): 921.

61. Study on Cuba, 26.

62. Atkins, Sixty Years in Cuba, 98, and Hall to Secretary of State William Evarts, June 19, 1880, RG 84/Havana.

63. Foster to Frelinghuysen, December 15, 1883, RG 59/Spain.

64. Banker's Magazine 38 (June 1884): 922, and Colección Legislativa, Vol. 132, August 26, 1884, 325.

65. Foster to Frelinghuysen, July 31, 1883, RG 59/Spain.

66. Ibid., July 28, 1884.

67. New York Times, 20 February 1883, p. 3.

68. Ibid., and New York Times, 23 February 1883, p. 2.

69. Colección Legislativa, Vol. 132, 1884, 154-157.

70. Foster to Frelinghuysen, July 28, 1884, RG 59/Spain.

71. Colección Legislativa, Volume 132, August 26, 1884, 326.

72. Vickers to Davis, August 27, 1884, RG 84/Matanzas.

73. Atkins, Sixty Years in Cuba, 89-90.

74. A clear conflict arose between Captain General Pendergast and Director General of the Cuban Treasury over collection of the new taxes. New York Times, 20 February 1883, p. 3 and 23 February 1883, p. 2.

75. The government was limited in these efforts by a world-wide economic contraction.

76. Williams to Davis, August 21, 1884, RG 84/Havana.

77. Williams to Department of State, May 26, 1888, RG 84/Havana.

78. Williams to Rives, November 24, 1888, RG 84/Havana.

79. Williams to Assistant Secretary of State John Cadwalader, May 3, 1889, RG 84/Havana.

80. New York Times, 30 November 1891, p. 2. Not all elements of the population rejected the paper currency. In 1888, the Governor General of Cuba, Sabas Marín, declared the provinces of Havana, Matanzas, Pinar del Río and Santa Clara in a state of war after "bandits" captured a colonel in the Matanzas volunteers. The ransom: 40,000 pesos in Spanish bank bills. Williams to Department of State, April 18, 1888, RG 84/Havana.

81. "El conversión de los billetes," El Productor 1 (August 4, 1887).

82. Boletín Comercial, enclosure from Williams to Wharton, December 31, 1891, RG 84/Havana. Williams later reported that not enough businesses went along with this proposal. See also New York Times, 8 January 1892, p. 3.

83. New York Times, 24 March 1891, p. 8, and Richard Leopold, Elihu Root and the Conservative Tradition (Boston: Little, Brown, and Company, 1954), 15-16.

84. New York Times, 5 February 1891, p. 5, 21 February 1891, p. 5, and Leopold, Elihu Root, 16.

85. New York Times, 22 February 1891, p. 16.

86. New York Times, 20 July 1892, p. 1.

87. New York Times, 5 October 1892, p. 2.

88. New York Times, 30 January 1894, p. 1, 1 February 1894, p. 6, and 27 March 27, 1894, p. 9.

89. New York Times, 15 May 1894, p. 1, and 16 May 1894, p. 1.

90. See Public Opinion 17 (August 9, 1894): 437-438.

91. New York Times, 7 March 1892, p. 5.

92. New York Times, 12 June 1892, p. 8.

93. New York Times, 5 June 1892, p. 5.

94. Gaceta de La Habana, 10 July 1879 in Ultramar (Hacienda), Legajo 831, AHN.

95. Williams to Quincy, August 23, 1893, RG 84/Havana.

96. Williams to Quincy, August 30, 1893, RG 84/Havana.

97. Williams to Quincy, August 26, 1893, enclosure from El País of 25 August 1893, RG 84/Havana.

98. Williams to Quincy, October 17, 1893, enclosure from La Lucha, 6 October 1893, RG 84/Havana.

99. Williams to Quincy, September 29, 1893, RG 84/Havana.

100. Tennant S. McWilliams. "Procrastination Diplomacy: Hannis Taylor and the Cuban Business Disputes, 1893-1897," Diplomatic History, 2 (January 1978): 63-80.

101. Philip Foner, A History of Cuba and its Relations with the United States, 2 Vols. (New York: International Publishers, 1963), II, 296-297.

102. Williams to Wharton, February 25, 1892, RG 84/Havana, and New York Times, 9 January 1893, p. 7, and Williams to Quincy, May 19, 1893, enclosure from El País of 17 May 1893, RG 84/Havana.

103. New York Times, 1 November 1893, p. 5.

104. New York Times, 7 March 1894, p. 1.

105. Enclosure of La Discusión, from Williams to Uhl, December 21, 1894, RG 84/Havana.

106. Williams to Uhl, January 8, 1895. Enclosure from the Diario de La Marina, 5 January 1895, RG 84/Havana.

107. "Estatuos y Reglamento del Banco-Hispano Colonial." (Hereinafter cited as BHC.) Legajo 734, Secretaria, BEA, 9.

108. Ibid., 5-6.

109. Ibid., 7.

110. See letter from the Secretary of the Bank of Spain to Asisclo Piña, Madrid, October 22, 1878, Legajo 734, BEA, and attached letter from Piña to the Governor of the Bank of Spain accepting terms of the agreement.

111. Letter from Abaroa y Goguel of Paris to Governor of Bank of Spain, November 16, 1878, Legajo 734, BEA.

112. BHC, 5-6.

113. BHC, Article One, 59.

114. Letter from Colonial Minister Cristóbal Martí Herrera to Pedro Salavarría, Bank of Spain, March 22, 1877, Legajo 741, Secretaria, BEA.

115. Gaceta de La Habana, 3 December 1880 and 2 December 1882 in Legajo 1177, BEA.

116. Vickers to Davis, April 18, 1884, RG 84/Matanzas.

117. Williams to Porter, December 4, 1884, RG 84/Havana.

118. New York Times, 16 October 1884, p. 2.

119. "Reforma del Reglamento: puntos de estudio." March 24, 1896, Secretaria, Legajo 647, BEA.

120. Vicens Vives, Economic History, 730.

CHAPTER VI

BANKING AND MORTGAGE CREDIT

In any economic system, credit availability depends on the assets of both creditor and debtor. Agricultural credit in Cuba was no exception. During the inter-war period, credit problems were exacerbated by Spanish government debts, depreciating paper money, limited hard currency, and externally controlled sugar prices. In these circumstances, the borrower was at the mercy of local and foreign creditors who provided short and long-term loans but at increasingly higher interest rates. The most highly capitalized credit institution in Cuba, the Banco, had taken on other responsibilities that precluded the possibility of acting mainly as financial intermediary for Cuban sugar production. Increasingly, planters depended on other agents to meet their credit needs.

Credit was the foundation of the economy at both the market and production levels. Large and small planters alike required access to credit and favorable borrowing terms. At the production level, labor and material costs did not vary significantly by farm size. The cost of producing one caballería (33 and 1/3 acres) of cane was estimated at approximately $1,000 to $1,600.[1] This included cane seed, equipment, and labor for preparing, aerating, plowing, furrowing, planting, and cultivating the soil and harvesting and transporting the yield. In contrast to the large producer, the small farmer's access to credit was more limited, however.

For the colono farmer who rented his land, loans were arranged with the central and local merchants. Some credit was extended by the mill to which the cane grower sold his crop. But food provisions and equipment often required credit arrangements with the nearest merchant. The colono renter was considered a greater credit risk than the mill owner because his tenure on the land was less stable, so the merchant charged a higher interest rate on both loans and deferred payment plans.

In some areas credit could not be arranged, so the farmer made what purchases he could in cash. But in this too he faced the disadvantages of economies of scale. The large planter or mill owner purchased larger volumes and could often do so at wholesale prices and pay 15 to 30 percent less than the small farmer. This was true whether if he obtained goods for cash or on credit.[2]

The cumulative effect on the small cane producer was often disastrous. When cane prices were lower than anticipated, as in the years 1878 through 1895, the tenant farmer might find himself so deeply indebted that he defaulted on his land rent. He often found the central controlling the price of his cane even below market value. Or he faced payment from the central in scrip or tokens rather than coins or even bank bills that he could use to pay off other debts. Once he was forced off the land, he was replaced by another grower who repeated the cycle.[3]

For the hacendado, the credit alternatives were more diverse, but increasingly more difficult to arrange. To produce their annual crops, planters relied on advances from merchant or commission bankers or surviving chartered banks like the Banco de Comercio. Ideally, loans would be repaid when crops were finally sold. The planter's ability to

obtain credit on an annual basis, however, was linked to the success of the previous year's crop and his repayment record. But unlike the tenant farmer, the property owner had the option of mortgaging not only his crops, but his land, in order to secure credit. The legal framework that determined this credit process did not necessarily mitigate against small producer access to credit. But in uncertain times, when even large faced producers met crises, the small producer was considered an even higher risk. As credit problems increased, producers accumulated debts from which they could not easily recover.

The Spanish mortgage law of 1869 outlined the procedures for mortgaging estates in Cuba. Like many other laws, it was not officially imposed on Cuba immediately. In practice, however, the guidelines were administered, if not strictly adhered to, in conjunction with the Civil and Commercial Code.[4] Two years after the end of the Ten Years War, the Spanish mortgage law was legally extended to Cuba with some modifications. The preface to the law clearly stated that such a detailed separate mortgage guideline required definition in Cuba because of the island's greater need for systematizing agricultural loans to finance the important sugar and tobacco estates.

Title 5, Section 1, Article 121 identified mortgageable assets: buildings; the right of receiving profits in usufruct (except under certain circumstances); surface, water, kindling, pasture, and other natural land rights; railroad, canal, port and other transport rights; goods belonging to persons with free disposal; goods sold on resale (with limitations); and previously mortgaged property.[5] This last delineation ensured the opportunity for second, third, or an indefinite number of mortgages.

Article 122 of the mortgage law changed the nature of agricultural loans from pre-war practices. It provided greater opportunity for short-term and long-term mortgages of agricultural crops. Previously, planters obtained operating capital or credit from merchant bankers by offering mortgages to their estates merely as collateral for the loan.[6] They did not, however, mortgage the estate itself. The loan was an advance against the coming year's crop but the creditor could place a lien only against the products of the estate, not the land itself. In practice, the effect was to force the debtor to sell all or part of his estate if he could not settle his debts from crop sales. The buyer purchased the estate and often assumed the debt at the same time, which had the effect of lowering the land value and increasing the number of units of production.[7]

The 1880 mortgage law attempted to alter this unsatisfactory method of obtaining loans. The law specified that among other non-mortgageable property, such as bank, business, and corporate shares, mines without titles or concessions, and state debt bonds, it would not be possible to mortgage the products of the land (or pending incomes) separate from the land that produced them.[8] The 1880 mortgage law, then, officially changed the nature of agricultural loans and freed the land itself to become a credit resource.

At the same time, the law provided for the continuation of the practice of advancing credit on the coming crop. Articles 73 through 78 outlined the nature of this agricultural loan (refacción).[9] While noting that the agricultural loan was not itself a mortgage, the law contended that the loan had the effect and impact of a mortgage.

This section of the mortgage law detailed several guidelines for agricultural loans that would prove to create such difficulties in interpretation and practice that they became the subject of great controversy. An agricultural loan was specified as a contractual agreement that identified the amount of the loan, the kind of specie advanced, and interest rate.[10] The loan could be used for the salary of employees, workers' subsistence (and that of the estate owner), government taxes, and other unspecified production costs. The liquidation of the loan had to be filed in the local registry and creditors were given seven months to challenge the liquidation of the loan or forfeit their right to challenge. The law clarified that what made such a loan a mortgage was its continuation over a period of at least three years.[11] Unfortunately, however, no minimum or maximum time frame was fixed for the agricultural loan or mortgage. The effect of leaving the loan term open to negotiation between debtor and creditor insured long-range, extended debts.

Article 77 created further conflict and proved impossible to enforce. It attempted to restrict mortgages to one-half the value of the estate, leaving the other half "for the security of later creditors."[12] The years of accumulated debts had probably made this restriction impossible to adhere to even before 1880, and it would prove more problematic in later years. Moreover, the law specified that debts were to be repaid in the order in which they were acquired. This was a shift from the previous practice of ensuring the last creditor first payment, which created a tendency for the same creditors to provide loans to planters year after year to maximize their chances of being

repaid. Of course, these creditors felt justified in raising interest rates for cumulative loans, which drove the borrower deeper into debt.

During the 1870s and early 1880s many new credit institutions were created and dissolved. It is likely that many dissolved--as did the Caja de Ahorros--because of improvident loans to planters. The dissolution of these credit societies, on the other hand, may have kept the sugar industry from further ruin. Debts were cancelled by bank failures, clearing the property for new loans. In a gradual process, only the most stable institutions survived. The planters acquired new loans from new agents, many of them foreign and capable of providing loans from the profits earned on foreign markets as well as from the high interest rates charged in the Cuban market.

In the years of declining sugar profits and increased expenses for technological improvements and labor costs, the credit rating of the _hacendado_ steadily declined. This was particularly true during the economic crisis of the 1880s. The lender was operating a very speculative business, since the borrower's ability to pay depended on high sugar prices. With the decline of credit societies, and to meet the needs of increased sugar production, commission bankers diversified their businesses. They loaned capital under the terms that they would not only sell, but package, store, and transport the crop for the United States market. With control over all phases of sugar marketing, the commission banker was assured a profit even when sugar prices dropped as the result of Sugar Trust policies. The planter, on the other hand, saw his profits reduced by higher interest rates and marketing costs.

At the same time, the planter faced mounting debts from his local suppliers. High interest rates and tight credit from merchant bankers

were functions of competition for loans for foreign machinery and the inflated costs of provisions. Merchant credit had been offered on a yearly, cumulative basis. If the planter could not pay his total debt in February after the January zafra, he might be granted an extension. During the inter-war period, however, the merchants gradually shortened the credit term from twelve to three months. If merchant bankers offered extensions, they were made through promissory notes that would be due (at a higher rate of interest) the following year, when the next crop was harvested. These notes, in turn, might be sold by the merchant banker to note brokers who gambled on the debtor's ability to pay.

In these difficult years, there was no assurance of high yields or returns on agricultural crops. This uncertainty and limited access to credit further justified the merchant and commission bankers high interest charges of 12 percent and more. In fact, the 1884 crisis that drove so many credit instituitons out of business demonstrated just how far both creditor and debtor had over-extended themselves. It also established a new climate in which other capitalists, with better ability to provide credit, could step in and offer the credit so desperately needed in Cuba. And it created the conditions under which agricultural capital and land would be further under the control of foreigners.

The need to arrange a multiplicity of loans reflected the unsettled state of credit institutions, but had advantages and disadvantages for both sides. On the one hand, the lack of restrictions on accumulating separate mortgages provided the individual planter with the opportunity for acquiring a large number of loans and could decrease his dependency on any one creditor who might control interest rates. It also defrayed

the amount of risk to individual creditors. At the same time, mounting debts increased the potential for bankruptcy and/or foreclosure in the agricultural sector. This became an increasing possibility, and for the planter or businessman who faced bankruptcy, the consequences could be severe.

The first option for a business unable to meet its debts was for the borrower to call a meeting of all his creditors. He offered a proposal for facing his obligations, and if he obtained agreement, the plan would be signed and sealed by a Notary Public as a legal contract. He could then proceed with his business. However, if his creditors disagreed on his repayment plan, the matter was taken before a judge, who appointed a receiver. The receiver represented the interests of the largest creditor and took charge of the debtor's accounts to arrange for payment schedules. All the creditors were involved in this "rehabilitation plan."[13] In such cases, the debtor's activities were thoroughly investigated, and if the judge determined that the failure was the result of fraud or other illegal acts, the debtor could be criminally charged. Punishment could involve jail, restrictions on travel, or legal intervention of his mail. His property could be embargoed and/or sold. But even though the repercussions of bankruptcy were devastating, this became an all too common occurence in the 1880s.

When property was auctioned after foreclosure, it was seldom on an open market. Instead, tradition dictated that the largest creditor had first choice over buying the sugars that were put up at auction, and buying the land itself. Edwin Atkins was one of the many benefactors of the new mortgage law and the economic hardships Cuban planters faced. Atkins and Company and the Spanish Torriente brothers were joint

creditors of several estates in eastern Cuba. Accumulated mortgages on four estates: Soledad, San José, San Ignácio, and Vueltas, resulted in foreclosure proceedings in 1880. Soledad was eventually put into receivership, a process that enable appointment of a receiver by the largest creditor, Atkins.[14] In 1882, Atkins purchased Soledad himself and entered the sugar producing business. Later, he acquired other estates, including Trinidad, through similar mortgage foreclosures.[15]

The transfer of property could be complicated by longstanding problems concerning titling. Official regional registries had been set up to enter land deeds. But many small farmers who inherited their land or had farmed it for generations without titles often had no written proof of ownership. Sometimes, the omission related to marriage laws. The cost of church-sanctioned marriages had been prohibitive to many small farmers, so marriages often took place without church certificates. Children of these marriages were considered illegitimate and even when they tried to transfer property to their heirs, their property rights were often challenged as to legitimacy of ownership. Without legal title, potential borrowers would have found it more difficult to negotiate loans and to transfer property. Moreover, in true colonial tradition, these registries were acknowledged by the Spanish officials to be inaccurate. This also created transfer problems for the large farmer who could not prove that decades-old debts had been liquidated.[16]

The 1880 mortgage law established a system for filing notices of possession, which could be converted into titles. Another issue that complicated the titling problem after 1880 was that new and old deed registries had been combined. They included prior liens and claims,

some of which had expired or been settled, but not recorded properly. This created enormous confusion for title clearance and often reduced the value of the property as a result.[17]

For those who found it impossible to maintain their estates, the foreclosure proceedings were often lengthy and complex. Edwin Atkins criticized the process as unneccesarily complicated, and attributed this in part to the political appointment of judges who had little or no knowledge of the law, and who hindered rather than facilitated property transfers. Judges were required to interpret a plethora of conflicting and/or confusing directives covered in the Civil Code and the Mortgage Law. Unfortunately for the litigants, many of these judges were not even attorneys and were unskilled at analyzing the circumstances for arriving at fair decisions.[18]

A few examples illustrate the complexity of the mortgage problem in these critical years. The sugar estates of San Joaquín, in Pinar del Río, and Santa Rosa, near Unión de Reyes, Matanzas, totaled 2,167 acres. In 1885, the estates were auctioned for mortgage debts to José Fernández de Velazco. The outstanding debt on the estates was $56,473 at 6 percent interest. The buyer was Joaquín de Mier, who re-mortgaged the estate to pay off Fernández. The new mortgagers were D. de Castro and Company of New York, and Ribon, Castro and Company, a French and American joint venture.

Over the next six years, Mier consistently borrowed capital from Cuban, American and Spanish money brokers to finance annual sugar production. By the end of 1891, both estates were encumbered by several mortgages:

San Joaquín	- $32,202.61 mortgage to T.G. Ribon
Santa Rosa	- $65,076.71 mortgage to Ribon Hermanos
Both estates	- $32,915.41 to the Banco de Comercio (at 9 percent interest)
Both estates	- $70,000 to the Banco de Comercio on the condition that sugars produced by the estates be forwarded to the Regla warehouses and sold through the bank's chosen licensed brokers.
Both estates	- $150,000 to Gorgoza and Company
Both estates	- $ 55,555 to Isaac Brandon and Company
Both estates	- $ 55,555 to Hoadley and Company
Both estates	- $ 33,333 to Redfern, Alexander and Company
Both estates	- $ 27,777 to Bartran Brothers
Both estates	- $ 22,222 to J.M. Ceballos and Company[19]

The last six mortgages were acquired at a rate of 6 percent interest. The contracts for these loans specified that Gorgoza and Brandon would act as brokers for the sugar crops produced by the estates. They agreed to sell sugar at the best possible price and distribute the profits from the sale among the six creditors. Under the terms of the agreement, if the value of sugar was insufficient to pay off the loans in full, Mier agreed to pay the difference in cash. In addition, to insure that Mier forwarded the sugar to Gorgoza and Brandon, contracts stipulated that the latter would otherwise appoint an overseer, whose salary would be charged to Mier.

This array of loans demonstrates the intricacy of the agricultural loan problem. At a high rate of interest, the Banco de Comercio provided a loan of more than $100,000 under the condition that its warehouses be used for sugar storage and its chosen brokers be used to negotiate sales. The agents themselves, Gorgoza and Company, joined with other commission merchants to form a loose syndicate, and advance another $225,000 to Mier. The percentage split was roughly 50/16/10/8/6.

At the end of 1891, as the Foster-Cánovas agreement began, Mier mortgaged his estates to the Western National Bank of New York City for $110,000 American gold at 6 percent interest. Mier agreed to let the bank sell the sugar produced on the estate through the special agent of the bank, Simon B. Camacho, and the sugar broker José María Montalvan y del Maso. Western also agreed to advance Mier $35,000 in 1892. $5000 was immediately credited to a New York firm. The rest was to be forwarded to Mier in separate draws of $10,000 each.

Mier was attempting to replace the arrangement with the Banco de Comercio and its high interest rates and brokers with a lower rate loan from Western National Bank. But it was acknowledged that these prior loans were "existing encumbrances" at the time of the Western agreement. Mier's debt, then, was rather extensive and likely to increase during low sugar prices from 1891 through 1893.

The San Joaquín and Santa Rosa estates were capable of annually producing 50,000 units of 325 pound bags of sugar. The estates consisted of the typical mill machinery, including a five-kilometer, narrow gauge rail, and a locomotive and ten cars at San Joaquín. Mier apparently decided to improve his equipment between 1886 and 1891 and had bought two new crushing machines from Guillermo Ross. He still owed $15,000 on these machines in 1895, but they were not included in the mortgage. Undoubtedly, he was in debt for other equipment as well.

Each year, Mier had made payments on his Western mortgage, which left $68,432.61 (plus interest) due to the bank on both the estates when they were attacked by insurgent forces in 1895. After the war, Western National submitted a claim to the Spanish Treaty Claims Commission to try to recover its debt. It estimated that the San Joaquín estate alone

should have been worth one and a half million dollars, including land and crops. But at the time of destruction, the total value was estimated at only $600,000. This indicated the extreme decline it had suffered even before the war. Western National argued that insurgent forces reduced the value further, to $25,000, a price that would make it quite affordable to potential buyers with the capital to recover it. Clearly Western National did not intend to do so.

The Western National Bank organized on May 1, 1887, and apparently made other investment mistakes. It temporarily went into liquidation in 1903. At the time it filed its claim with the government, it held 21,000 shares of $100 each. The bank had tried to regain some of its assets by seizing the property, effecting an attachment of the mortgage, and notifying Mier of an auction. It was restrained, however, by the same decrees that affected another mortgage loss, that of Edward Francke.

In 1892 American citizen Edward Jasper Francke and his company, Francke, Hijos, and Company were partial mortgagers of the sugar plantation and refinery "Central San Claudio," which covered 7,800 acres in Pinar del Río. The company had loaned the owner the relatively small amount of $30,000, for which they charged 8 percent interest. The debt not paid, Francke attempted to initiate foreclosure proceedings. Under a May, 1896 decree, however, Weyler suspended auctions and sales of estates. The Board of Planters and Agriculturalists had petitioned Weyler for this decision. In essence, the decree suspended the action of all courts of justice in suits for the collection of mortgages, ground rents, and other credits and property attachments until 1897.[20] In 1897, the restriction was extended again. This time, collection of

ground rents was resumed. It specified, moreover, that any private, voluntary arrangements for mortgage payments were up the creditors and debtors.[21] Unable to gain recompense, Francke and Company appealed to the Spanish Treaty Claims Commission for redress.[22] The debtor, meanwhile, was cleared of this particular debt.

Similarly, other commission merchants tried to recover their debts through the treaty agreement. The brothers Gaston and Julio Rabel were born in New Orleans and became importers and exporters of sugar machinery in Cárdenas and Havana. In 1895, Rabel and Company loaned Agustín Mederos, owner of the Santa Isabel estate in Matanzas, $3,000, at a high interest rate of 12 percent. In return, Mederos agreed to deliver all of the sugar he produced to Rabel, who would sell it and deduct from the proceeds the $3,000 loan, interest and "charges." The "charges" proved to represent the major part of the estate's true debt to Rabel. They included forty cents in gold per sack of sugar produced for the sacks themselves, storage and freight. Although the size of the estate was not specified in the deposition, the claimant said it was expected that the estate would produce 2,500 sacks of sugar. This is about one-twentieth the amount produced on the San Joaquín/Santa Rosa estates. By selling sacks, charging for storage and transport, and acting as brokers, the Rabel brothers would have turned a handsome profit for the $3,000 loan. In all, the Rabels claimed they would have earned $80,285 <u>plus</u> profits, if insurgents had not destroyed the estate in the war.[23]

The Rabels were also agents for other estates, including San Vicente, near Lagunillas, Matanzas. This estate of 312 acres, had been mortgaged to Francisco Hernández Capote for $23,755 in 1881. In 1886,

the owners arranged another mortgage, in part to pay off the $10,000 balance. They obtained a $25,000 loan from Rabel and Company at an interest rate of 12 percent. The debt was apparently paid off very slowly, and $21,500 (plus interest) was still due in 1895 when the estate was damaged by insurgents. The Rabels filed for recovery and under deposition, the husband of the heiress of the estate testified and said he could not repay the loan. He admitted that he had bought another estate in the meantime, but declined to confirm that the sales of machinery at San Vicente provided the capital for that purchase.[24]

This last case illustrates one of the strategies that may have been used fairly often by planters who were in severe debt circumstances even before the war added to their financial difficulties. By taking what value they could from unproductive, encumbered estates and making other purchases, they could try to minimize their losses somewhat. The law provided for no tying of mortgage debts between estates. And the destruction of estates essentially cancelled their debts, since there was no means or procedure available for repayment. Under these circumstances, few North American mortgage holders attempted to recover their losses through suits through the government. Instead, they found it more expedient and profitable to foreclose and perhaps purchase the estate themselves.

In 1895, the American firm of Mosle Brothers, for example, held over a million dollars worth of 8 percent mortgages on six sugar estates.[25] They were not listed among those filing for redress to the Spanish Treaty Commission, however. By 1897, American investors owned one quarter of the Sancti Spíritus wealth, including four of the five estates.[26] And right before the beginning of the war, the Constáncia

Sugar Company incorporated in New York with capital of $500,000 and a mortgage of $1.2 million on 5,280 acres of land owned, perpetual leases on 35,475 acres, and fifty-year leases on 1,511 acres. It also owned a sugar factory. Constância's ownership of acreage was rather insignificant in the overall scheme of Cuban sugar property, but its mortgages and leases were not.[27]

Once planters began to mortgage their estates for operating expenses, further mortgages only served to keep them operating until the debts finally forced them out of business. Second or third mortgages were not necessarily used to pay off prior debts. Instead, they might provide for partial payment, and for covering yearly operating expenses that were proving more difficult to finance. Increased interest rates, reported as high as 18 to 30 percent, meant estates were fighting a losing battle with agricultural loans. The planter kept hoping for higher sugar prices, and even conspired to hold back on sugar sales to try to secure them. But the power of the Sugar Trust mitigated against the planters' success with this strategy. If he held back on sugar sales, he merely failed to pay his debts, insuring a higher interest rate on future loans. His labor costs, taxes, machinery, and tranport costs were all rising at a time when capital was decreasing, and both money supplies and bank credit were contracting.

In 1895, when the January crop was being harvested, many estates hit rock bottom. It was, according to Atkins, abnormally wet and cold that season. The prices for sugar were very low, and the planters discharged thousands of workers. More estates went into receivership. For the small and medium estates unable to protect production during the war, the destruction of their estates by rebel forces proved to be only

the final manifestation of a financially ruined enterprise. Many of those large estates that survived the war would not survive the military occupation. Between 1899 and 1901 the United States military government in Cuba continued to protect the landowners of Cuba from the consequences of their debt obligations. Yet there were still insufficient credit and capital sources to meet the needs of sugar planters and mills. The war's effect on the sugar industry and infrastructure had been much more devastating than the Ten Years War had been, so both debts and capital requirments were higher.

Once again, the solution to economic crisis was the formulation of a reciprocity treaty with the United States.[28] The potential growth of a more modern, centralized sugar production could not, however, be capitalized by Cuban estates plunged into burdensome debts to commission merchants. Many planters were forced to sell their estates, at prices far below their future production values. Small and large farmers alike ceded ownership of the sugar industry through the combined effects of the war, decades of accumulated debt and titling problems that ensured foreclosure, inadequate financial institutions, and a United States occupational government that facilitated the North American acquisition of property.[29] These results had their antecedents in the fiscal and monetary problems of the 1878-1895 period.

It had been the 1884 financial crisis that had destroyed the Cuban banks and investment companies and increased reliance on merchant bankers and commission merchants to finance the crops. By 1887, the effects of gradual emancipation came to be felt more keenly by the planters. The credit and currency problem had become so severe that it

was reported that many merchants in the more remote areas were no willing to provide loans on the coming crop.[30]

In the meantime, the government continued to raise taxes and increase the costs of property transfers. In 1880, it had raised the tax on sales of property by 50 percent.[31] The government also collected a tax on mortgage agreements, charging one-half percent when a mortgage was arranged and one-half percent when the mortgage was liquidated.[32] Government charges for title filing and searches added to property transfer costs. All of these policies reduced the opportunity for Cubans, with limited access to capital, to purchase estates.

In addition to losing his property to creditors, the possibility of the estate owner losing his property to the government increased. Failure to pay taxes resulted in the government mortgaging the estate. When property taxes increased along with other expenses, the planter's chances of forfeiting his estate for debts increased. Given the extent of debt problems, this was not an unusual occurence.

The government handled this problem of unpaid taxes through the Banco of Cuba. In 1885, it became responsible for the collection of taxes, and also could take action against the estate when taxes were not paid. After allowing an extension of the obligation, its next step was to notify the Treasury, which then filed a lien against the property. At the end of the extension, if the property owner still had not paid, the government would seize the property.[33] But rather than selling the crops for taxes, it would either keep the property or sell the entire estate at an auction. The buyer, in turn, could purchase the property with a 10 percent cash downpayment and a series of promissory notes or his own mortgage plan.[34]

The planter was increasingly frustrated by the systems available to finance sugar production, and the government policies controlling mortgage credit. As the problem of agricultural credit became more severe, the planters pressured the government for re-examination of the mortgage system.[35] In 1893, Spain finally acknowledged the significance of the problems and issued a new colonial mortgage law.[36] The articles of the new law differed little in content regarding recording procedures and types of mortgages. The preface, however, noted the problem of titling and its effect on small producers. To try to affect some remedy, it provided that notices of possession filed in the registry would be converted into absolute titles twenty years after filing.[37] The law also established a time limit and procedure for cancelling liquidated debts, which it hoped would serve to raise property values.

The greatest difficulty, however, was acknowledged to be the procedure for effecting mortgages. The problem, it said, lay in the previous law, with:

> its crushing confusion, the uncertainty of results, and its incalculable cost...[that] restrained capital or suggested usurious conditions; sales and resales take the place of loans, with the object of avoiding all proceedings to the prejudice of the landowner; interest is stipulated which triplicates the capital loaned, and perhaps by the employment of other means the debtor is exposed to penal responsibility, converting the sanctity of laws enacted for the punishment of crimes into a vile instrument of avarice against the unfortunate.[38]

Accordingly, the new law optimistically decreed uniformity of judicial action in investigations. It promised auctions would be immediate and simultaneous auctions abolished, along with writs of attachment, and other legal strictures.

More significantly, the 1893 law abolished Articles 73 through 77, relating to refaccionarios. The issue of agricultural loans was

promised consideration in another arena. Although Spain recognized the request for clarification of agricultural loans for tenants in common and other loans secured only by products of the estate, it determined that these had no place in the mortgage law:

> This law, embracing real property only, cannot be applied to products when considered apart from the soil itself; agricultural credit cannot be considered as embraced by a credit of the land.[39]

The 1893 law did not, however, entirely ignore the issue of agricultural loans. While on the one hand arguing that a discussion of such loans had no place in the mortgage law, it clearly stated in Article 59 that agricultural creditors could file cautionary notices against estates, and that "this entry shall have, with regard to the agricultural loan, all the effects of a mortgage." Articles 60 through 64 also referred to the agricultural creditor as a mortgager. Elsewhere, the law stated that "a mortgage extends to natural increase, improvements, growing crops, and rents not collected when the mortgage falls due; and the value of indemnities allowed or due the owner for insurance on the property mortgaged, or by virtue of condemnation by right of eminent domain."[40]

Finally, the new mortgage law, in Article 112, attempted to remove "a great impediment in the way of a perfect and strong re-establishment of Cuban industries."[41] It decreed that machinery purchased for estate production was not part of the land mortgage and could be removed from the property after sale or auction.

The effects of the revised 1893 law could not be measured in the two years remaining before the outbreak of war. There is no indication, nevertheless, that it eased or substantially changed credit for the large or small planter. In November 1893, six months after the 1880 law

was repealed, planters faced the prospect of a one million ton crop for 1894, and even more limited access to credit. Yet planters struggled on, obtaining loans where they could and under whatever agreements they could while the colonial government found itself more involved in its own mortgage debt morass.

The Spanish government had decided to go into the mortgage bond business as a means of raising capital on the potential landed wealth of the island. Some of the property seized for taxes and other government owned land were offered as mortgage bonds on European markets in 1886, and 1890. The 340,000 mortgage bills offered in 1886 amounted to a debt of approximately $115 million in 1895.[42] In 1896, this debt issue had increased to $120 million.[43] Another issue of mortgage bonds was made in 1890, which was valued at $48 million in 1895 and $174 million in 1896.[44] These bonds were issued for a fifty-year period. The largest subscribers were Spaniards ($11 million), the Bank of Paris ($3.5 million), the Rothchilds ($3 million), the Banco Hispano-Colonial ($3 million), and the Banco Hipotecario ($2 million).[45] The purpose of these bonds was to redeem the floating debt, and convert other Cuban securities. The Spanish government offered as a guarantee for the bonds the revenue from customs, stamps, and direct and indirect taxes of Cuba.[46]

Ultimately, the floating debt was not serviced by sale of these bonds. Instead, they were used to finance govenment expenses before and during the war. One month after the beginning of the insurrection, Overseas Minister Tomâs Castellano put into circulation 200,000 Cuban mortgage bills from the 1890 authorization.[47] These became an immediate source of capital to finance the war in Cuba. Perhaps more important,

they also became the collateral for loans Spain raised from the Madrid Bank of Spain.[48] This continued to seal the relationship between the Bank of Spain and the political future of Cuba, tying it even more to political issues.[49] Cuba was involved in an expensive independence war that showed no signs of ending soon.

The Romero-Abarzuza Reform Bill of 1895 offered no assurance of change to insurgents and other supporters of the rebellion. In addition to ignoring reforms in the bureaucracy and customs, the bill made no provisions for paying the enormous public debt.[50] Despite decades of converting and consolidating loans and of issuing mortgage bonds to pay off the floating debt, Cuba in 1896 was conservatively estimated to be in debt for more than $325 million.[51]

In May 1896, Tomás Estrada Palma petitioned the United States government to recognize Cuban belligerency. One of the arguments Estrada Palma advanced was that United States recognition of the war would better insure that insurgents would observe the rules of war regarding U. S. property. North American owners were already feeling the effects of the insurgent strategy of attacking the sugar industry to destroy the economy. But Article 20 of the rebel constitution promised that foreign property and businesses would be subjected to payments of revolutionary taxes only until their governments recognized the war.[52] Estrada Palma argued further that he knew "many Spaniards intend to transfer their property, as some have done already, to American citizens or companies <u>especially organized for their purpose</u>" so that they could be afforded protection of the United States government.[53] It is not

known to what extent this practice actually occurred, but it would have the effect of further confusing property ownership and mortgages in Cuba.

Spain had loaned and mortgaged Cuba's future to the Rothschilds, Baring Brothers, and numerous anonymous investors in banks, credit companies, and sugar factories from the United States to Western Europe. In servicing these debts, it found itself in the same position as the planter in Cuba. Each debt was acquired at a higher interest rate, and the accumulation of debts reduced the possibility of speedy liquidation. The government of Spain, however, could not declare itself bankrupt, nor did it face foreclosure. What its policies and procedures resulted in was something much more devastating and final. The loss of its primary income-producing property resulted in the loss of thousands of Cuban, Spanish, and North American lives, the dislocation and suffering of thousands more, the disruption of the economy, and the certainty that Cuba would remain a sugar monoculture for several more decades.

The royal decree of November 25, 1897 established autonomy in Cuba. The decree, however, focused on the new political form, not the economic structure of society. Its reference to the Cuban debt was indicative of the government's casual disregard of the impact of its fiscal and monetary decisions:

> As regards the debt which rests upon the Cuban treasury, whether directly or through guarantees which it has given to the Peninsula, the justice of dividing it equitably [when the war ends] is beyond a doubt. A country which has produced so much wealth with so few institutions of credit may inspire its creditors with confidence.[52]

Notes

1. Report on the Commercial and Industrial Condition of Cuba, Appendix, 255.

2. Ibid., and Vickers to Davis, July 3, 1883, RG 84/Matanzas.

3. Scott, Slave Emancipation, 208-212.

4. The text of the 1880 Ley Hipotecario (hereinafter cited as Mortgage Law 1880) is found in an enclosure from Hall to Hay, May 13, 1880, RG 84/Havana.

5. Ibid., 43-44.

6. Iglesias, "Between Slavery and Free Labor," 63.

7. Ibid., 73.

8. Mortgage Law 1880, 45-46.

9. Ibid., 35-36.

10. Ibid. The law devoted more space to detailing title registration procedures than to guidelines for acquiring and servicing loans.

11. Ibid., 36.

12. Ibid.

13. For an in-depth discussion of Cuban credit during this period see Vickers to Davis, July 13, 1883, RG 84/Matanzas. These procedures combine elements of Chapter Seven and Chapter Eleven of contemporary United States bankruptcy laws. However, little legal protection was afforded either creditor or debtor in Cuba.

14. The process of determining the largest creditor, and therefore receiver, for the property was sometimes complicated by fraud. Edwin Atkins complained that one of his competitors paid impersonators to attend a foreclosure hearing for an estate in debt to Atkins. These men claimed to have liens against the estate, but were "bought off." Atkins, Sixty Years in Cuba, 69-70.

15. Ibid., 127-130.

16. Report on the Commercial and Industrial Condition of Cuba, Appendix, 260.

17. The Mortgage Law for Cuba, Puerto Rico, and the Philippines, 1893. Translation by the U.S. War Department (Washington: Government Printing Office, 1899). (Hereinafter cited as Mortgage Law for Cuba, 1893.)

18. Atkins, Sixty Years in Cuba, 69.

19. The estates were also in debt for an undisclosed amount to Hidalgo and Company of Havana. See Spanish Treaty Claims Commission, United States National Archives, 1910, Record Group 76, Claim no. 229. (Hereinafter cited as RG 76/USNA.) The claims by U.S. citizens for redress of losses suffered in the 1895-1898 Cuban war were filed under the terms of the Treaty of Paris. These 542 claims totalled $64 million. Property damage or loss claims respresented 343 of the claims, and of these only fourteen were filed for loss of mortgage debts. Clearly, the majority of U. S. creditors made other arrangements to recover investments, including purchase of destroyed estates.

20. Williams to Rockhill, May 20, 1896, RG 84/Havana.

21. Lee to Rockhill, April 28, 1897, RG 84/Havana.

22. RG 76/USNA, Claim no. 527.

23. RG 76/USNA, Claim no. 235.

24. RG 76/USNA, Claim no. 236. The deposition of the husband in this case provides some insights about family property relations in Cuba. Rosa Váldez Castro inherited the estate while still a minor. The guardian appointed to manage her affairs, Robustíno Ferro, later became her husband. She did not testify about the claim. When questioned about his wife's knowledge or understanding of his business activities, the husband made it clear that matters were entirely under his control, as tradition dictated. The mortgage laws of 1880 and 1893 also reflect the practice of females ceding to males all control over property.

25. Williams to Uhl, November 19, 1895, RG 84/Havana.

26. Lee to Day, June 7, 1897, RG 84/Havana.

27. Williams to Uhl, November 7, 1895, RG 84/Havana.

28. Louis A. Pérez, Jr., "Insurrection, Intervention, and the Transformation of Land Tenure Systems in Cuba, 1895-1902," Hispanic American Historical Review 65 (May 1985): 239-241.

29. Ibid., 248-252.

30. Statement of D. M. Mullen, U. S. Commercial Agent at Sagua la Grande, January 11, 1887. Congress, House Executive Documents, Commercial Relations of the United States, 1886-1887, 49th Cong., 2d sess., 973-976.

31. Banker's Magazine 35 (July 1880): 45.

32. Report on the Commercial and Industrial Condition of Cuba, Appendix, 113.

33. Ibid., 175.

34. Ibid., 176. One of the agents interviewed by Robert Porter complained that by paying for government-auctioned property with promissory notes, the buyer might pay only 64 percent of the cost. He could discount the notes at 8 percent interest each year.

35. Coleccion Legislativa, Vol. 133, 1885, 305-307.

36. Mortgage Law for Cuba, 1893.

37. Ibid., 4 and 77.

38. Ibid.

39. Ibid., 6.

40. Ibid., 32.

41. Ibid., 6.

42. Williams to Rockhill, March 16, 1896, RG 84/Havana.

43. Ibid.

44. Ibid.

45. Banker's Magazine 42 (November 1887): 367, and Lee to Secretary of State William Olney, July 9, 1896, RG 84/Havana.

46. Banker's Magazine 42 (November 1887): 367.

47. Elena Hernández Sandioca and María Fernanda Mancedo. "El empréstito de 1896 y política financiera en la guerra de Cuba," Cuadernos en Historia Moderna y Contemporanea, 1 (1980): 142.

48. Letter from Overseas Minister Tomás Castellano to Governor of Bank of Spain, December, 1896, Legajo 1457, BEA, and letter from the Overseas Minister to Bank of Spain, March 18, 1897, Legajo 1457, BEA.

49. Hernández Sandioca and Fernanda Mancedo, "El empréstito de 1896," and T. Lloyd, "The Bank of Spain," Economic Journal 2 (1893): 170-173.

50. Enclosure of La Discusión, 16 November 1895 in letter from Williams to Uhl, November 19, 1895, RG 84/Havana.

51. Lee to Rockhill, June 25, 1896, RG 84/Havana.

52. Tomás Estrada Palma, Cuban Belligerency (New York: n. p. [1896]), 26.

53. Ibid., 53.

54. Real decreto de 25 de noviembre de 1897, estableciendo en la isla de Cuba el regimen autonómico. (La Habana: Gobierno y Capitán General, 1898).

CHAPTER VII

CONCLUSION: DEBT, DISORDER, AND THE END OF SPANISH COLONIALISM

Between 1878 and 1895, Cuban requirements for economic stability increased. The transition from slavery to wage labor, Spanish promotion of greater volumes of sugar exports, and recovery from the Ten Years War placed pressures on the economic system. These stresses could not be accommodated within a traditionalist colonial framework that was adversely affected by internal change, debt, and economic stagnation.

Two distinct but related conditions were necessary for the recuperation and advancement of the Cuban economy. The first was a stable currency, to facilitate transactions and increase confidence in the economic outlook. The second was access to responsive, flexible credit systems, to reduce the costs of borrowing. With lower credit rates, producer indebtedness would have been minimized and access to modern technology would have been more widespread. Neither of these conditions were met in the colonial system.

Problems with both hard and soft currency complicated financial transactions. A contributing factor was the gold drain from Spain and Cuba to other parts of Europe, a trend exacerbated by the costs of the Ten Years War. The currency crisis deepened with the transition to a new mode of production and a greater need for technology which neither Spain nor Cuba could develop.[1] Spanish trade and fiscal policies complicated its monetary policies.

Spain's inability to promote technological development increased reliance on British and United States industrial and commercial suppliers. To a limited extent, French and German exporters also participated in this trade. Trade agreements that were formulated to permit the increased importation of sugar technology and other goods in Cuba invariably involved reduced tariff schedules. The effect of these agreements was to decrease the benefits of colonial trade for the Spanish Treasury.

Since Spain had financed not only the Ten Years War but also yearly operating expenses through European loans serviced from Cuban customs receipts, any reduction in tariff collections placed enormous strains on the Treasury. The government turned to banks like the Bank of Spain of Cuba and the Banco Hispano-Colonial for further loans because it could find no other method for financing colonialism. The efficacy of increasing Cuban property and sales taxes was limited by the ramifications increases would have had on production--and colonialism itself.

Ultimately, Spain mortgaged land in Cuba for operating expenses. It raised capital by creating a secondary mortgage market controlled not by private investors but by the the government. This market, designed to subsidize the colonial Treasury, provided no investment capital for Cuba. In fact, floating Cuban mortgage bonds that were serviced by customs receipts cast a pall of financial insecurity over the island. Moreover, when the Banco Hispano-Colonial intervened in the customs collection process to insure repayment of its loan to the government, customs revenue losses further strained the Treasury.

Debt financing before and after the Ten Years War increased the perpetual or "floating" debt to the Cuban economy. This escalating debt became a contentious issue from 1878 to 1895 and was of particular

concern during the war for independence. In 1896, customs revenues used to amortize loans had been reduced by almost half.[2] French and British holders of Cuban bonds anxiously awaited the outcome of the war and the fate of their investments.[3] Rumors circulated of a chartered London corporation acquiring Spanish-owned lands and mines in Cuba in return for payment of the $400 million debt.[4]

There is as yet no evidence that United States investors subscribed to any of the issues that made up the debt. But in 1897 a group of investors worked with Tomás Estrada Palma to develop a plan for redeeming the debt by transferring it to a United States syndicate. The syndicate promised to work towards evacuation of Spanish forces and United States recognition of Cuban independence.[5] However, United States participation in the war in 1898 and its subsequent occupation and direction of Cuba presented other opportunities for handling Cuban debt and credit problems.

North American interest and investment in Cuba after 1898 ensured a new emphasis on credit needs. United States capital founded the North American Trust Company in 1899. The bank acted as the occupational government's fiscal agent and guaranteed the currency. It became reorganized as the Banco Nacional in 1901.[6] Other native and foreign banks proliferated to replace the commission and merchant bankers. The Bank of Spain of Cuba not only continued in operation, but expanded to fifty-five branches by 1920. However, it was only one of many banks offering agricultural credit to the entrenched monoculture economy. The Banco did not move into the post-colonial period as the note-issuer or agency of the federal Treasury. Its previous association with colonial rule and the transfer of credit institutions and capital from the United

States to Cuba combined to reduce its importance in the Cuban economy. To facilitate the process of transferring the indebted Cuban estates to North American owners, the United States had transferred many of its own credit institutions to the island.

The currency confusion that involved the Bank of Spain of Cuba had created endemic instability in the Cuban economy. Treasury gold reserve losses prompted monetary policies that had unforeseen consequences. Permitting coins from other countries to circulate in Cuba confused exchange transactions. As Spanish sixteen and eight piece gold coins disappeared, circulation of silver and gold coins from the United States and other countries increased. Not even minting of new Spanish coins could keep pace with the needs for hard currency. The value of foreign coins was higher in relation to Spanish coins not only because the *peseta* value fluctuated and dropped in the world market, but also because foreign--and particularly United States coins--were considered more stable. They represented foreign exchange in an economy becoming more closely tied to United States markets.

The effect of hard currency problems on agricultural labor shaped freedom of choice in profound ways. In the plantation economy, slaves preparing to purchase freedom had a longer wait if planters could not or would not use scarce coins. "Free" labor paid in scrip or tokens was also tied more securely to the estate. Both slaves and wage earners were completely without negotiable currency in the larger Cuban economy, and remained separated from it. On estates owned by United States citizens with better access to North American currency, conditions varied. It was more possible to make purchases in the local market which could in turn help stimulate the Cuban economy. Job choices could be enhanced

as participation in the economy improved mobility.[7] However, since wage rates remained low and the economic crisis persisted, the advantages of hard currency payment were reduced. Without expansion of other types of employment, labor faced a limited market for skills and skill development. Lack of access to credit also reduced the opportunities for ownership of small farms.

For the planters, the hard currency shortage increased reliance on credit and the propensity to negotiate credit with agents from more stable capital systems. Mortgaging estates for United States currency provided planters with the foreign exchange to purchase goods and technology from the United States. Ideally, planters should have been able to borrow at a lower interest rate than available through Spanish agents, but data on loans arranged by United States brokers suggest that money-lenders negotiated the top price the market would bear in Cuba.

Arrangement of short-term agricultural loans effected through sugar agents and brokers for the United States market resulted in increased the circulation of United States currency in the economy. But once the crop was sold and the bill of exchange transacted, the planter was left with constantly devalued Spanish currency for payment of debts. The introduction of paper money in the economy merely increased economic uncertainty.

The decision by the government to allow the Bank of Spain of Cuba monopoly on paper money issues was a result of its decision to finance the Ten Years War through loans and deficit spending. Just as the Madrid Bank of Spain became the exclusive note-issuing institution for Spain, the Bank of Spain of Cuba became the issuer for the colony. Recalls of these notes, inconsistent government directives regarding

their acceptance for government fees, and awareness of their decreasing negotiability in gold all reduced the faith in and the value of paper money. Changes in the forced use of the notes created persistent confusion in business and government transactions. But the decision to continue to use paper money to ameliorate the hard currency problem was tied to the government need for treating the Banco as an agent of the Treasury. Here, also, Banco activities conformed to the role the Bank of Spain played in the metropolis. The Banco took responsibility for collecting taxes, forwarding customs receipts, and subsidizing the Treasury through loans. These activities all reduced its role as financial intermediary for the Cuban producer or potential investor.

Because Spain failed to solve the currency problem between 1878 and 1895, the crisis intensified during the Cuban independence war. With production greatly reduced over all the island, trade diminished, and expenses rising, Spain turned once again to the Banco to finance the new war. It "bought" the Banco's gold and replaced it with silver, authorizing the issue of 20 million new bank notes. The government assured the island that this 1896 issue was backed by silver and promised redemption at par.[8] The old denominations of 1000, 500, and 100 peso notes were required to be returned between December 10, 1896 and January 10, 1897. They were replaced with new notes of 50, 10, 5, 1, and fractional pesos printed by the American Bank Note Company of New York.[9] These notes were to be accepted at face value in all payments to the government except customs duties. The government then prohibited quotations of either gold or notes.

By February 1897, rumors circulated that the new paper issues had already fallen 30 percent below silver.[10] Three months later, Spain

decided to refuse to redeem the notes for silver or to accept them for tax payments.[11] Since the war began, Spain had increased taxes across the economy: on consumer goods, business, and real estate. It also raised the import duties.[12] All of these actions were designed to increase hard currency for the Treasury.

At the end of the war, Spanish and foreign gold and silver coins still circulating in Cuba were at a premium. As United States occupation began, a central question in stabilizing the economy was how to handle the currency situation. Currency stability was essential to reconstruction of the economy, and the United States solicited the opinions of Cuban businessmen and North American investors to attempt to solve the problem. Because circulation of United States currency in Cuba had already been established, one option advanced was to introduce North American dollars and coins as legal tender, replacing all Spanish and foreign currency. Another was to introduce new United States-minted gold coins.[13] Neither of these proposals was adopted, but the problem of value for the Cuban paper peso in relation to North American currency persisted for many years.

United States investment and currency increased on the island after 1898. The creation of a new banking system and influx of North American capital continued to destabilize the Cuban currency. In less than a decade, the problems of exchange between the United States and Cuban currency reached crisis. The exchange rate for the Cuban peso (25 to $26.50) became an issue in the 1907 opposition to United States occupation under provisional governor Charles Magoon. Once again, cigarworkers, bus drivers, boxmakers, carpenters and other workers rejected payment in the depreciating peso paper currency. However, this time

there was an alternative paper currency available. They demanded to be paid in United States dollars rather than *pesos*.[14]

Currency instability and attendant credit problems between 1878 and 1895 hindered purchases of foreign-produced technology and other consumer and capital goods. Increases in productive capacity and improvements in the refining process could only be accomplished by modernizing equipment. Productive capacity was increased, but the profits from final refining and packaging processes were controlled by the United States for decades to come.

Increased sugar production required expansion and improvements in transportation networks as well. The Spanish government could not afford to undertake these projects in Cuba, and instead attempted to promote private investment in railroads. Both lack of surplus capital to finance rail development and limited financial intermediaries to mobilize capital for these ventures contributed to minimal rail expansion. Unlike Spain, Cuba had not secured foreign investment to finance its rail and port systems in the last part of the century. Joint-stock and credit investment companies with mainly Spanish and British investors had undertaken the initial projects. But investment banks and credit companies did not organize after the 1870s, even to obtain foreign loans to finance rail construction. And in the last decades of the nineteenth century, both planter indebtedness and priority on mill technology reduced capital for investment in the infrastructure.

In Spain, the attempt to promote industrialization through rail development had failed partly because banks overemphasized transport industry loans. At the same time, capital available for investment in manufacturing was more limited. In contrast, the Cuban rail system had

developed to serve the needs of the sugar monoculture and planters.[15] Connecting sugar estates to the export centers had little effect on the fusing of cities or regions, and the minimal expansion of rails in the 1878 to 1895 period continued to be organized around the sugar economy. Increased taxes and currency problems limited venture capital available for investment in rails. These conditions, combined with Spanish support of monoculture also reduced the opportunity for investment in diversification of agriculture or the creation of local market production.[16] Entrepreneurs who may have been interested in other ventures faced increased opportunity costs in a credit system organized around sugar.

As sugar production changed with abolition and capital needs for payment of labor and financing sugar technology increased, the role of the financial intermediaries became more important. The credit systems available to Cuba between 1878 and 1895 were inadequate for the effective functioning of the economy. Investment banks and credit societies failed or faltered in the economic crisis of the 1880s, in part because of their narrow functions and in part because of mismanagement. The Bank of Spain of Cuba was the principal and most highly capitalized credit institution on the island, but also failed to provide the resources necessary for growth in the sugar industry or any other industry. It survived where other banks failed because it had the political and economic support of the government.

As the needs of the Treasury were increasingly placed ahead of the Banco's potential for promoting private business, both the Banco and the Cuban economy suffered. The bank lost the opportunity to increase its profits by investing more assets in ventures other than sugar and

government loans. The Cuban economy lost the benefits that better investment strategies and systems would have provided.

The Banco failed to be an agent for effectively accumulating, mobilizing, and utilizing capital for several reasons. One factor was its internal organization. A bank charter that established the structure, activities, and share values of the bank for twenty-five years reduced the flexibility necessary to accommodate any changes that may have been required to take advantage of investment opportunities as they arose. The decision-making process, controlled by Spanish government appointees, also inhibited responsiveness to needs outside colonial government interests.

Another reason for its limited role in economic development related to the currency issue. The bank did achieve exclusivity of note-issuing that should have provided the most effective means for bank expansion and for habituating the public to use financial intermediaries. But it jeapordized its own expansion by issuing notes that were not adequately backed, and that were tied to government debts. Moreover, as the public lost faith in these devalued issues, the government failed to provide assurance of their stability, and in fact, increased distrust in the currency.

The proportion of the public with access to banking also affected the Banco's effectiveness in the economy. In the east, criollo exploitation of mining resources that would have contributed to the economy was inhibited by both low surplus capital and limited access to credit. In that region, banking facilities were very underdeveloped. Capital for rail lines, technology for sugar production, and other ventures could not expand with inadequate financial intermediaries. Part of the

problem related to the ability to find stock subscribers with adequate capital to invest in a branch bank. And there is no indication that the Havana Banco operated as a lender of last resort. Instead, each branch stood on its own, receiving little benefit from its relationship with the more highly capitalized Havana bank.

In all regions, the few branches failed to meet the needs of the populations. Particularly in Matanzas province, where some degree of factory development had occurred in Cárdenas, access to credit might have induced further investment. But bank assets there were only a quarter those of the Havana bank.

Restrictions on bank functions also affected broad access to banking. The Banco served the needs of the government first, and although its private business in handling bills of exchange and providing loans to some planters were important, its policies on loans, current accounts, and "safe-keeping" meant its services were limited to the wealthiest planters.[17] This left small and medium creditors with no alternatives but merchant or commission bankers.

Bank capital expanded in very small increments in the period between wars. The ability to increase subscribers and bank activities was a function of the economic environment as well as bank policies. During these difficult years, long-range and short-term planning became problematic for the Cuban investor and the banker. Factors external to Cuban control cannot be minimized. The political climate in the United States, its natural resources and capital resources, including accessibility to stable credit institutions, facilitated the growth of sugar refineries. The Cuban trend toward exclusivity to this market placed Cuba at the mercy of a group of United States monopolists who controlled

sugar prices and therefore the profits of the sugar planter. Profits remaining in the Cuban economy were minimized by government tax policies and currency devaluations that inhibited investment opportunities within and without the sugar industry. But for the period under review, Cuban credit needs that were not met by the Bank of Spain of Cuba were met elsewhere. Commission and merchant bankers tied to United States markets and remitting profits outside Cuba, were the major agents for capitalizing marketing and production in Cuba.

Planters who arranged short-term agricultural loans and long-term mortgage agreements through North American brokers in essence operated outside the Cuban economy. As Spanish capital sources became more limited, more United States investors stepped in to provide credit, acting either as brokers for the United States sugar companies or, as some estate owners did, as credit agents for Cuban sugar production costs. Over a period of time, the accumulation of debts in the crisis economy increasingly enabled United States lenders to acquire estates for the price of these debts.

Operating first at the market level, commission bankers arranged for the sale of Cuban production on United States markets, charging a fee for their services. As sugar production and credit needs increased, agents diversified their functions, providing credit for the production of sugar as well as for packaging and storage. Many of these agents took on several roles, brokering exports as well as marketing imports in Cuba.[18] Outside the major trade areas of Havana and Matanzas, exporters and consumers depended more on these agents, and they tended to be more diversified in function.

Merchant bankers and commission merchants, serving the particular narrow needs of capitalizing and marketing local production, did not act as agents for the accumulation, mobilization, and utilization of capital. While they performed the major credit functions in the economy, the role they played emphasized marketing or brokering rather than investment. Some, like the cigar manufacturing firms of Bances and Upmann or the sugar firm of Brooks and Company and the Torriente Brothers also engaged in raw material production, but many, if not most, limited their businesses to marketing and/or providing short-term loans to local producers.

North American sugar property owners and commission bankers who chose to re-invest profits in Cuba did so by acting as credit agents for other sugar estates. This was a capital risk for the lender. If the sugar estate failed--and declining sugar prices increased this likelihood--a creditor with knowledge of and interest in operating the estate could assume management and purchase the estate. The commission merchant or banker without the ability to acquire the estate and keep it operating, on the other hand, lost his investment. This loss was minimized by increasing the number of clients served.

The interest rate charged for loans and commission fees was higher than in the United States or Spain and no institution controlled these rates.[19] While agents could accumulate high profits from financing marketing and production, more research is needed to determine how these profits were utilized in and out of Cuba. Given the nature of the Cuban economy, however, re-investment in industries other than cane, fruit, or tobacco seems unlikely.

Mortgaging of estates, rather than just crops, to obtain operating capital from commission merchants demonstrated how critical the credit problems had become. As the independence war insurgent strategy strained sugar production on small and medium estates unable to afford protection, many of these planters sold or abandoned their estates. Mortgage debts for many large producers made recovery impossible. The credit system operating from 1878 to 1895, then, set the stage for increased United States control of sugar properties after 1898.

Between 1878 and 1895 the Cuban banking system failed to fulfill its economic role in society. Unable to develop its own refining capacity and serve as the principal agent for marketing Cuban products, Spain had previously ceded control over the market. In its attempt to promote sugar production, strengthen colonial control, and service its debts, Spain recreated its own programs, banking institutions, and policies in Cuba. By failing to accommodate to the different conditions in Cuba, it lost the opportunity to promote Cuban economic development. Government policies, lack of bank competition or access to services, and currency and credit problems all hindered the role of the banking system as intermediary between potential savers and investors. The basic issue of economic survival became more important than the opportunity to advance, and began to cut across class lines. Dissatisfaction with and resistance to monetary and fiscal policies combined with rejection of Spanish political direction to end colonial rule.

Notes

1. Between 1878 and 1895, United States imports of gold and silver from Cuba dramatically exceeded exports to Cuba. The differential was highest in 1892 ($60 million) under the Foster-Cánovas agreement. Metal exports to Cuba never exceeded $24 million, while gold imports from Cuba ranged from $49 million to almost $79 million. Congress, House, "Export and Import of Gold and Silver," Commercial Relations, 54th Cong., 2d sess. (Washington: Government Printing Office, 1897), 113.

2. Williams to Rockhill, April 18, 1896. Enclosed report from the Boletín Comercial, April 14, 1896, RG 84/Havana.

3. Feis, Europe, the World's Banker, 153, and Paolo Coletta, "The Peace Negotiations and the end of the Treaty of Paris," in Paolo Coletta, ed., Threshold to American Internationalism: Essays on the Foreign Policies of William McKinley (New York: Exposition Press, 1970), 132-137.

4. Herminio Portell Vilá, Historia de Cuba en sus relaciones con los Estados Unidos y España, 3 Vols. (La Habana: Jesús Montero, 1941), III, 349.

5. Ibid., 348-365, and David Healy, U. S. Expansionism (Madison: University of Wisconsin, 1970), 80-82. These negotiations are an intriguing tale of attempts to purchase Cuban independence by using the debt as collateral. The complete story--of who purchased the $2 million worth of bonds known to have been issued--has yet to be told.

6. Thomas, Cuba, 545-546.

7. For an example of salary schedules and maintenance costs for estate workers on a U. S.-owned plantation see Statement of P.M. Beal, manager of Atkin's Guabairo colonia in Report on the Commercial and Industrial Condition of Cuba, Appendix, 252-254. The relative economic freedom of labor on United States-owned sugar plantation deserves further research.

8. Lee to Rockhill, February 18, 1897, RG 84/Havana.

9. Gaceta de La Habana, 28 August 1896. Lee to Rockhill, June 27, 1896 and July 16, 1896, RG 84/Havana.

10. Lee to Rockhill, February 18, 1897, RG 84/Havana.

11. Lee to Sherman, May 12, 1897, RG 84/Havana.

12. Springer to Rockhill, December 3, 1896, RG 84/Havana.

13. Report on the Commercial and Industrial Condition of Cuba, Appendix, 8-9, 206-208.

14. Thomas, Cuba, 491.

15. This was adequately developed in the dissertation of Goizueta-Mimó, "Effects of Sugar Monoculture upon the Cuban Economy." See also Albert O. Hirschman, Strategy for Economic Development.

16. There is some indication that the Cuban planter class lacked the Weberian "capitalist spririt" that is an important component of surplus capital recomposition. Much of the profit made on Cuban sugar was spent on marble baths, grottoes, and other luxuries. Some also went for public works projects the government could not subsidize. See Thomas, Cuba, 278-279. Of no small significance were the profits that Spaniards and North Americans repatriated.

17. Further research is needed on the Bank's subscribers. Preliminary study suggests that they came from the sugar planter class and therefore ensured perpetual accommodation of the Banco to sugar industry needs.

18. Clark, Commercial Cuba, "Cuban Business Directory," 469-502.

19. Study on Cuba, 31.

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